

652 9. The exchange system was subject to the control of the
648 Mandatory authority which directed it in accordance with its own
interests, and the exchange control was a department administered
directly by the High Commissioner's Office. In 1944 the exchange
control was transferred to a joint Syro-Lebanese committee, head-
ed by a delegate from the Central Exchange Control Office of
the franc area, of which both Syria and Lebanon were members.
In 1948 Syria declared its withdrawal from the franc bloc and be-
652 came independent in dealing with exchange questions. The Ex-
change Office in Syria thus became a purely Syrian institution.
Subsequently the Government initiated several reforms that aimed
at removing war-time restrictions. The exchange system became
gradually freer and adapted itself to the needs of the Syrian eco-
nomy. The last and most important of these reforms was Legisla-
tive Decree No. 208 of April 21st, 1952, which allowed the free entry
and transfer of capital and created conditions facilitating commer-
cial transactions ; it also worked towards achieving stability in
the foreign exchange rates and bolstering the cover to the currency.
In this manner the Decree inspired confidence in the national
currency and prepared the right atmosphere for the entry of for-
eign capital and its investment in the country. ¹

651 10. As to the customs policy, this also was directed by the
648 Mandatory authority. It was formed by financial considerations,
the first aim of which was to cover the expenditures of the Man-
date and collect revenues for the treasury. When the Syro-Leba-
nese authorities took over the customs administration, the customs
tariff and regulations moved gradually towards facilitating com-
mercial transactions and encouraging national industry by exemp-
ting machinery and raw materials, needed by industry and agricul-
ture, from duty. However, the establishment of a customs union
between the two countries and the existence of an actual economic
union, which took the form of free movement of goods, capital and
persons between them, led to disagreements as to the customs and
economic policies that each country thought should be followed.
The disagreement reached its peak on the questions of import and
export policies and the protection of national industry, and as a
result of their failure to agree on a common policy, the two coun-

¹ *Vide The First Annual Report on the Activities of the Exchange Office in 1952, Damascus, 1953.*

ries separated in 1950, and, in consequence, Syria regained freedom of action in directing her customs and economic policies and in managing her economy on an independent basis. 651/648

11. The new Syrian government also had to face serious internal problems, that the Mandatory power with its "Laissez-faire" policy had not attempted to deal with. No factual study of the country was made nor any determined course of economic action undertaken. The following are the most serious of the defects of the economic system at that time :

First there was a lack of statistics and detailed studies upon which to base a sound economic policy. Nor were there any technical and scientific studies of the country's economic resources, or plans for developing and exploiting them. Secondly, the banking system failed in meeting the country's need for agricultural credit and for medium and long term credit. The majority of the banks were branches of foreign banks that specialized in commercial short-term credit operations, and which, with the exception of the Banque de Syrie et du Liban, avoided seasonal agricultural lending. All the banks operated without any control or direction. Furthermore, no bank had up to that date been established to deal with industrial or mortgage credit. There was only the Agricultural Bank, established by the government to deal with medium-term agricultural loans, but its regulations, staffing and limited means did not enable it to play a major role in meeting the needs of agriculture. Thirdly there was no money market that could attract national savings and invest them in development projects. People with savings have always preferred to hoard them in the form of gold, or else they invested them in real estate. In addition, foreign capital avoided entry into the country because of restrictions on exchange, and other reasons. 659/453/652/454

12. During the period 1945 to 1953 the government made a great effort to regulate the Syrian economy in the fields of trade,¹ 656

¹ Legislative Decree No. 14 of December 18, 1951 and its amendments concern the regulation of the possession of, and trade in, raw materials and products. Legislative Decree No. 151, of March 3, 1952 and its amendments concern company law and the law governing firms established outside Syria. Legislative Decree No. 60, of January 13, 1953 and its amendments regulate foreign trade etc.

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652 present level. The proportion of current taxes (approximately LS
[65] 200 million) to the national income (approximately LS 1250 million) is 16 per cent. This ratio may seem small if compared with that of other countries, but we should not forget that the national income of Syria is in itself small. What the average tax-payer pays in taxes is cut from his essential expenditure, since his income is not appreciably in excess of his essential expenditure. There is little surplus that the government can reasonably take in the form of taxation.

However, though we cannot depend on taxes to finance development projects, we should not neglect the improvement of methods of tax imposition and collection, and the need for strict inspection in applying taxation laws. It is not improbable that such improvements and inspection may lead to a 15 per cent rise in collected taxes, (about LS 30 million). This could very well be used to cover the desired expansion in ordinary government expenditure and to contribute towards development projects.

In any case, development expenditure tends in the long run to increase national income, thus forming in its turn a new source of public revenue that should not be neglected by the government, particularly since a greater taxation effort is essential to absorb the surplus purchasing power created by development projects and to combat inflation.

454 37. As to internal loans, we have seen that there is no financial
652 market in Syria and that individuals do not embark on such a form of investment. Though we realize the difficulty of creating a financial market in a short period of time, yet we believe that it is possible at the present time to establish a money market, and that, with adequate measures, a financial market dealing with medium term loans could be set up in a relatively short time. Considering that private capital invested in national companies since 1944 has amounted to about LS 100 million, and that the capital invested in individual enterprises, whether industrial, commercial or agricultural, was more than twice the funds spent by the government on development projects, it becomes clear that the possibility of creating a financial market is not out of the question.

The creation of a financial market in Syria is an essential condition for the success of any development policy. Without a financial and money market the authorities concerned will not be able to direct credit affairs effectively, nor to manage monetary policy in the country. The benefits that such a market would bring would

prosperity of the region during the last twelve years resulted in the benefit of the Sheiks who were quick to seize the meaning of the expansion in agriculture brought about by the introduction of the machines. They laid claim to vast areas of the best lands without opposition or control by the Government, and then rented these lands to machine owners, thereby getting rich at the expense of others and depriving the tribesmen of the possibility of tilling their own lands.

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The concentration of land in the hands of the Sheik and his family is greatest in the Shammar tribe and in the Jubur whether though the Chiefs of the tribe own the best lands, but the Tay tribesmen took to agriculture earlier than either the Shammar or the Jubur and many Tay villages are owned by the peasants.

This short glimpse covers the Arab population of Jazirah, and we turn now to the other elements in the population.

II. The Kurds

The Kurds have been and are a vital element in the development of Jazirah. Their original country is the mountains north of the plain. Their language and customs have dominated the country so that even the city dwellers of Mardin and Nisibin speak Kurdish besides Arabic and Turkish. The Kurdish migration to Jazirah started in earnest after the failure of the Kurdish rebellion against the reforms of Mustafa Kamal. Some Kurdish tribal chiefs sentenced to death migrated with their tribes to Syria. The French authorities welcomed them and they occupied the lands directly south of the border, greatly increasing in this way the number of Kurds already in the region. The Arab tribes saw their lands diminishing, but not being yet land conscious, they were satisfied to claim tribute from the Kurdish villages, which was paid for several years.

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For the first time in perhaps nine hundred years, the French established law and order in Jazirah. The Kurds, farmers in their own country, began cultivating the plains. The land being fertile, the crops were good. The French authorities treated the Kurds well and the news of good crops and unbiased government treatment reached the Kurds just across the border. Migration became a continuous operation from the mountains to the villages of the plain. There were no obstacles to this movement either on the Turkish or the Syrian side, and the immigrants joined their cousins and relatives across the railway line. For this reason, and because a census was never taken, it is very difficult to estimate the number of Kurds in the Jazirah.

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165 strains or to cultivate them in the Government stations in Syria.
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435 3. The price of fuel is a major obstacle to agriculture and to
651 the possibility of competing on the world market. While the price
185 of a ton of mazut in the Euphrates area in Iraq is LS 21 its price in
654 Kamiahli is LS 175, i. e., more than eight times as much. The same
is true to a lesser degree of the price of gasoline and kerosene due to
excessive Government taxation. The Government used to refund to
farmers a part of the taxes on gasoline and kerosene used in agricult-
ural machinery, but it has recently abolished even this meager help.

401 4. The sale of agricultural machinery and especially of its
435 spare parts needs supervision. Agents deliberately create scarcities
during the period of greatest need so as to get the highest prices pos-
sible.

435 5. The system of transport from the combine to the stations
489 needs complete revision. At the present time, farmers are obliged
to use jute bags on the combines to fill with wheat. The bag is
bought for LS 2 but is sold as wheat in Aleppo. Since the bag weighs
1.25 kilograms and the price of a kilogram of wheat is 26 piasters,
the farmer gets less than 30 piasters for every 200 he invests in a bag.
This means a loss of LS 14 per ton, without counting all the extra
expense of handling on the combine, then on to the truck, then to the
railway station, then on the railway and, lastly, discharging at Al-
eppo Station, then transporting by truck to the merchant's store.
All this handling, necessitated by the use of jute bags is paid by the
farmer to the amount of LS 4 per ton. Added to the loss on the bag
it makes a total loss of LS 15. All this could be saved if transport
could be so organized as to eliminate the need for jute bags.

435 6. The fluctuation and uncertainty of prices is a major obstacle
656 to the continued progress of agriculture in Jazirah. The farmer who
plants his seeds in October does not know whether he will sell his
crop in July for ten piasters a kilo or for thirty. He lacks information
on world prices and merchants take advantage of that and of the fact
that he is constantly in need of money to buy a major share of the
crop at low prices. But even if the farmer were informed about world
markets, Government regulations constantly hamper the free opera-

LAND TENURE IN JAZIRAH

427 The custom in Jazirah is for the tenant to pay the rent in a percentage of the crop delivered to the owner free of all expense.

1. Land Tenure for the Peasant

427 Under Ottoman rule and because land was abundant and peasants scarce, the rent was fixed at 7L. The owner and the tenant were 651 each responsible for the Government taxes on his own share of the produce.

The Ottoman Government collected the tithe and the werko as taxes on the land. The title, as its name implies, was 10% of the produce to which was added later 2-1/2% as special revenue for public instruction.

Because the peasant wanted to be as far away from Government officials as possible he paid the landowner 19-1/2%, including the tithe and the rent, and did not care how much of that the landowner actually paid so long as he remained unmolested by the public officials. This percentage of 19-1/2% is still prevailing and is known by the name of "Hassil and Tabo".

In 1924 the French found the collection of the tithe cumbersome and adopted a modified system. They took the average tax paid by the land in the preceding four years and made the sum obligatory. In practice, this meant light taxation on the land, but the landowner still received from the peasant the same percentage as when the tithe was actually paid. Later, when the tax of 7% on agricultural produce took the place of all land taxes and the peasant had to pay it when he transported his crop for sale, he kept paying the landowner 19-1/2% so that his percentage has come to mean rent to the landowner without the obligation on his part to pay the taxes of the peasant. What made the situation acceptable to the peasant was that the increase in population would have raised the rent anyway. He now pays this rent for the use of land and house. If the house is not included for his, he constructs his own house of sun-baked bricks, but [342] retains the right to remove the wooden roof when he leaves the village.

62/ penetrated more deeply into the settled land gradually changed
 24/ from nomadic pasturage to sedentary agriculture. They
 grew wheat and other cereals wastefully and by primitive
 methods which had not changed for many generations;
 sometimes using the remnants of the Roman irrigation system,
 but more often relying upon the rain and the sparse streams;
 producing mainly for subsistence, but selling what surplus
 they had in the towns. After the early Islamic period there
 was an uninterrupted decline in the agricultural productivity
 of the country. Its causes were mainly political: the
 exactions of tax-collectors and the depredations of civil war.

619 The constant immigration of new Beduin tribes prevented
 72/ the maintenance of a stable agricultural life in all except
 22/ the coastal regions. The Beduin always looked upon the
 settled land as a source of plunder, and gave no willing
 allegiance to any Government, or to any law except their own
 customary codes. Periodically the peasants' work was set
 back by the incursions of the nomads, and the constant
 threat of raids served as a discouragement from enterprise.
 The margin of cultivation was in consequence always shifting
 and uncertain; it moved eastwards into the desert when
 the Government was strong enough to hold back the Beduin
 or induce them to settle on the land, and when the Government
 was weak the opposite process took place.

62/ In consequence of the change to agriculture, the relationship
 42/ between tribesman and tribal chief was replaced by, or rather
 65/ transformed into, that of peasant and landowner. Syria was
 a feudal country. Until the seventeenth century the lords
 423 had held their lands on condition of performing military
 service; but later the feudal army fell into disuse, and
 a new feudalism grew up based upon tax-farming. The
 Pasha of the province was normally the chief tax-farmer;
 he was required to transmit an annual tribute to Constanti-
 nople, and in return was allowed to squeeze as much as
 he could out of his subjects. Beneath him there was a
 hierarchy of feudatories, farming their districts or villages on
 similar terms. In some districts they were Ottoman officials,
 but in others the right of collecting taxes was given to the
 local or tribal chiefs, who were virtually autonomous. This
 was especially so in mountainous districts like Lebanon,
 Jebel Druze and the Alawi district.

62/ The feudatory's tenure was precarious, and his power
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Recovery of Costs

The capital cost of irrigation and reclamation schemes can and should ^{3/2} be recovered from the beneficiaries. In principle it makes little difference ⁴⁵² how these costs are recovered—whether through sales of government-owned land that is reclaimed or irrigated, through improvement levies on newly irrigated privately owned land, through irrigation dues, or through a combination of any of these. The state should, however, appropriate most of the benefits for the community at large and to this end impose levies on the direct beneficiaries proportionate to the benefits derived. This is not only socially equitable but it enables the government to recover the cost as rapidly as possible and thus acquire the means to undertake additional projects. The direct beneficiaries must, of course, be allowed to retain some of the benefit, but there is no justification for allowing private landowners whose land is irrigated by the government to enjoy a windfall or for settling farmers on newly irrigated or reclaimed land on terms which enable them to live on a standard far exceeding that of their counterparts elsewhere in the country.

In the past the government has sought to recover the cost through ^[51] irrigation dues. In 1953 the government collected on this account £S 473,000, which left a margin of £S 268,000 over the amount appropriated to maintain existing irrigation schemes. Early in 1954 the government introduced a new scale of charges increasing progressively with the size of the landholding. The prospective yield of these charges is difficult to assess. While the scale takes into account differences in the benefits accruing from various schemes, the mission considers that the fees instituted for the Tell Maghass, Mzerib and El Senn projects, while higher than those in others, are still rather low in proportion to the benefits enjoyed by cultivators and landowners. A review of these charges therefore appears desirable. If and when the government adopts the mission's recommendation for a progressive land tax, the progressive feature of the irrigation charges may also have to be modified.

Maintenance

Adequate provision for maintenance of irrigation schemes after completion is, of course, essential. Current appropriations for maintenance appear rather low. In 1954 they were raised to £S 350,000 from a total of

68 THE MAIN REPORT

423 districts"; to provide for the forfeiture of land "neglected for a period of
425 time"; to encourage "small and medium properties"; and "to protect the peasant and raise his standard of living".

In recent years several countries have taken steps to break up large estates and distribute them among landless tenants. Where large estates are farmed in small plots by tenants operating with rather primitive methods, the economic advantages resulting from well-managed large-scale exploitation certainly do not accrue. On the contrary, farming by impoverished tenants may be regarded as a social liability and an actual or potential cause of discontent. In the last analysis only the Syrian people acting through their government are competent to determine what course to pursue regarding large landholdings. The mission would only point out that expropriation on a considerable scale would entail large outlays for compensation and would be more disruptive than constructive, unless adequate measures were simultaneously taken to provide new peasant owners with sufficient supplies of seed, draft animals and tools and to guide them in their agricultural practices. Where labor is scarce and land is cultivated on a large scale by machinery, as in the Jezireh, expropriation would manifestly serve no useful purpose and would result, instead, in a substantial reduction in output.

There are, however, certain measures the mission would recommend for serious consideration. One would be to prevent aggravation of the problem by enacting legislation to prohibit individual families who already own a certain amount of land—say, 1,000 hectares—from increasing their holdings still further. Another would be to enforce, as a minimum, the existing legislation, which provides that land not tilled for five years should revert to the state. In cases where land is utilized or exploited in a manner which is not in accordance with the standards prevailing in Syria, the
423 government would be justified in depriving the owner of his land. Finally,
651 the mission suggests that the larger landowners should be more heavily taxed in the interest of raising more money for development and of promoting greater social equity. Income derived from agriculture does not fall at present under any of the existing schedular income taxes. Instead, most agricultural produce brought to market is taxed at 7%. While this tax does not bear heavily on peasants who produce primarily for their own consumption, it is not progressive in its application to landowners or pump owners who sell their share of the output on the market. The mission sug-

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gests, therefore, that this tax be complemented by a new land tax. The rate of such a tax should increase with the size of landholdings, and small holdings should be entirely exempt. The rates must also be in accordance with the yield of the land, but the mission suggests that they be kept rather low (e.g., not more than £S 2.3 per hectare on the average) so that a detailed, complex classification of land in accordance with productivity may be avoided. In another section of this report the mission proposes that the present schedular income taxes be supplemented by a global income tax levied at a moderate rate. In our opinion, income from agriculture should be included in the scope of such a global tax. The ascertainment of income from land is by no means as difficult as is generally supposed.

In addition to taking these steps, the government should pay special attention to the improvement of the lot of tenant farmers. In general, measures should be adopted to increase the tenant's share of the output, to give him greater security of tenure and to make him less dependent on the landlord as a source of credit and supplies.

The economic bargaining power of the landlord vis-à-vis the tenant and of the pump owner vis-à-vis the cultivator is so great that the landlord and pump owner obtain a rather excessive share of the output of the land. It would be desirable to establish a commission to study the various forms of association in the exploitation of agricultural land which prevail in different parts of Syria and to make recommendations designed not only to make these arrangements more equitable but also to put them on a basis which would give the actual cultivator of the land more incentive to improve his agricultural methods. Such a commission could work out the terms of written contracts which would be applicable to various types of association. It could also devise ways of giving greater security of tenure to the tenants. The latter can generally be ousted at will by landlords and the land they receive for cultivation is so frequently reallocated that they acquire no interest in its permanent improvement. Finally, it would be appropriate to consider the establishment of local land tenure commissions to settle, in a manner comparable to settlement of labor conflicts, disputes among the parties sharing in the exploitation of the land.

A number of measures to foster cooperatives, provide more ample credit and establish machinery for assisting the farmer at the village level are recommended elsewhere in this report. It is important that these measures

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433 plant might be able to undertake the production of these items as well as the improved types of agricultural implements which, in accordance with our proposals, might be developed for use on Syrian farms. It should be emphasized, however, that future industrial expansion will need to be more selective and that projects will require careful technical and economic scrutiny to establish their suitability for Syria.

We conclude, therefore, that improvement in efficiency and more careful, selective expansion are the principal problems which Syrian industry faces. To meet these problems we have a number of recommendations involving (1) increasing exposure of industry to foreign competition, (2) development of a larger market for industrial products, (3) establishment of an investment bank to provide technical and financial assistance to industry and (4) improvement in vocational education.

Protection of Industry

433 Syrian industry today is in many ways shielded against foreign compe-
654 tion. Protection of this type is a relatively recent phenomenon, dating
651 only from 1949. Before that time industry had developed with little or no
457 government assistance. Prewar tariffs were moderate and essentially
revenue-producing in character. Virtually the only concessions to industry
were lower duties on plant and equipment and raw materials. The rapid
expansion of mechanical manufacturing occurred at a time when there
was little competition from abroad. During the war imports were largely
impossible and in the immediate postwar years the demand for manu-
factures was such that rising imports were not incompatible with the
continued development of domestic output. With the relaxation of foreign
exchange restrictions in 1948 and an increasingly abundant supply of
manufactures in the world market, Syrian industry finally began to suffer
from foreign competition. In 1949 the government came to the rescue by
providing industrial establishments with facilities to obtain state-guaran-
teed loans at low interest rates from the issue department of the Banque de
Syrie et du Liban. Pressure for more effective protection of industry was
instrumental in terminating the customs union with Lebanon, which as
a trading nation was interested in keeping tariffs moderate. Following
the dissolution of this economic union in March 1950, import duties were
generally raised and in many cases almost doubled. In 1951 tariffs on such
articles as textiles, glass and soap were again sharply increased and the

first import embargoes were imposed. In 1952 a large number of imports ⁴³³ were prohibited and a *de facto* sugar trading and manufacturing monopoly ⁶⁵⁴ was instituted. The following year, however, the Minister of Economics ⁶⁵¹ was deprived of discretionary authority to impose embargoes, and a number ⁴⁵⁷ of prohibitions were subsequently lifted. Even so, import embargoes are still applied to such consumer goods as cotton hosiery, socks and stockings, "job lot cloth," second-hand cotton and silk clothing, men's shirts, vegetable oils, various soaps, margarine, canned vegetables and fruits, confectionery, glass and glass products, match boxes and match wood, matches, pins, wooden furniture and boots and shoes. These protective measures have been supplemented by controls over exports of certain raw materials designed to give domestic industry preferential access to available supplies. Importation of ginning machines was prohibited to safeguard existing enterprises, and imports of second-hand looms and knitting machines were stopped, to insure the installation of modern machinery. In 1952 the government also initiated licensing of industrial establishments for the purpose of preventing overexpansion and ill-considered ventures. During the same year more positive assistance was provided by enacting a law for the encouragement of industry which extended a number of benefits to new enterprises and extensions of existing plants.

The mission has no doubt that some protection of industry is justified, particularly in underdeveloped countries which need time to raise labor, technical and managerial skills to a level approximating those in the more advanced industrial countries. As we have already pointed out, the types of industry developed in Syria are generally of a character to warrant the expectation that they can ultimately stand on their own feet. This goal, however, will not be reached as long as production is as effectively insulated against outside competition as at present. The present system of exaggerated protection does not provide a sufficient incentive to raise efficiency and productivity. For Syrian consumers it involves excessive sacrifices in the form of higher prices and poorer quality. In recent years, for example, the Syrian government has found it necessary to protect consumers by controlling the prices of such articles as vegetable oils, yarn and cement.

In view of these considerations we recommend in particular that the present import embargoes be abolished. In some cases it may be necessary to substitute import duties higher than those now included in the tariff schedule, but in those instances prohibitive rates should be avoided and

433 provision made for gradual reduction of the duties. At the same time we
 654 suggest that the whole tariff schedule be re-examined. By and large it
 • 651 cannot be said that the general level of tariffs is excessively high, particu-
 457 larly since ad valorem rates are levied on imports valued at the official rate
 of exchange, and this entails an undervaluation of about 40% compared
 to the actual exchange rate. In fact, we recommend elsewhere that tariff
 rates be assessed on the basis of actual foreign exchange rates for the pur-
 pose of increasing government revenues. This should not be construed,
 however, as a proposal to raise all tariffs irrespective of their nature. On
 the contrary, we would suggest that, as part of the general revision of the
 schedule, those rates which are primarily protective in character should
 as far as possible be reduced for the purpose of encouraging outside com-
 petition and lowering prices. If necessary, such reductions could be gradu-
 ated over a period of time.

434 Possibilities of a Larger Market

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The expansion and, above all, the diversification of industrial output
 in Syria is restricted by the rather small domestic market. In a country of
 only 3.6 million people with low purchasing power it is generally possible
 to manufacture only a limited range of articles which are used widely
 enough to warrant production on an economic scale. Broader industrial
 opportunities are likely to emerge only if a larger market is initially avail-
 able. In the case of Syria it should be possible to establish such a market
 in cooperation with other Arab countries, all of which suffer from a
 similar handicap in the development of their industries. Over recent years
 the Arab countries have increasingly stressed their community of interest
 and the need for closer cooperation. The field of industrial development
 offers a particularly challenging opportunity for common endeavor. We
 do not suggest, of course, that the types of industrial enterprises to be
 developed by each country should be the subject of joint government deci-
 sion. There should be consultation in cases where particular ventures are
 to be launched with special government assistance. In the main, however,
 the location and development of industry should be decided by the free
 play of competitive forces operating in a larger, common Arab market.

To a limited extent the Arab countries have already taken steps to
 develop such a market. Syria has concluded bilateral agreements with
 Lebanon and Jordan which free certain products from import restrictions

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TABLE 9 Financial Resources, 1955-60

(Million £S)

Existing revenues, with anticipated growth ^a	1,315-1,360
Additional taxes and revenues	
Change in base for application of ad valorem import duties	20.0
Excises, import duties and fees	25.0
Institution of global income tax	24.0
Tax on large landholdings	10.0
Additional revenues from state domain	11.0
	90.0
Improved tax administration	40.0
Income from Aleppo and Damascus public utilities	60.0
Oil transit revenues	75.0
Domestic borrowing	85-120
Foreign aid and foreign borrowing	175-215
Total	1,838-1,958

^a Annual increase of 3% and 4% respectively. The estimates exclude oil revenues and take into account the repeal of the export tax on cereals and the effect of the proposed adjustment in the livestock tax.

about £S 11 million per year, a loss which Syria can ill afford, and while the tax may well have discouraged the cultivation of cotton on unsuitable land, there is no reason to believe that it has worked undue hardship on efficient cotton producers. We recommend, however, that the existing specific duty be replaced by one levied on a sliding scale graduated according to the price of raw cotton. In addition we suggest that the present head tax on animals, which is difficult to administer, be repealed and that instead the sale of animals, wool, hides and skins be subjected to the regular 7% agricultural production tax. This would probably entail some loss of revenue which, together with the consequences of the elimination of the export levy on cereals, has already been taken into account in the projection of government receipts mentioned above.

Since the proposed tax and revenue increases recommended by the mission are discussed in previous sections of this report and in the Annex on public finance, they will be mentioned only briefly below:

1. *Assessment of import duties at the actual instead of the official exchange rate.* This would increase significantly the yield of existing ad valorem tariffs, many of which are very low in terms of valuations at the

651 de facto exchange rate. We have already indicated in the chapter on in-
652 dustry, however, that this measure should be accompanied by a review of the entire tariff schedule so that the incidence of all ad valorem duties would not be raised arbitrarily.

2. *Higher excises, customs duties and fees.* Quite apart from the proposal in the preceding paragraph, it should be possible to impose additional excise taxes or, alternatively, customs duties on luxuries and semi-luxuries. The rates at which certain fees are collected on business transactions, including stamp duties, judicial and property transfer fees and the like, could also be raised.

3. *Imposition of a global income tax.* Existing income taxes are schedular in character, that is, levied separately on income derived from business and professions, salaries or wages, circulating capital, and urban real property. These taxes are not sufficiently progressive in their incidence on persons drawing their income from two or more sources. We recommend, therefore, that they be complemented by a global income tax, which would be more closely related to ability to pay. Income from agriculture which is not subject to any of the schedular taxes should in our view be included in this global tax. It has often been argued that taxation of income from agriculture is administratively impracticable. We propose, however, that only the high incomes derived from agriculture be included in the tax, and we do not believe that these are by and large more difficult to estimate than those derived from other sources.

4. *Tax on large landholdings.* The essential features of this proposed tax, which is recommended primarily as a measure of land policy, have already been outlined in Chapter 3.

5. *Additional revenues from state domain.* We have suggested that the income now derived from state domain that is already leased for agricultural purposes can be increased by gradually raising the rentals to a level conforming more closely to that prevailing for private land, for instance in the Jezireh. In addition, the recapture of land under the provisions of Law No. 135 of October 29, 1952, recommended elsewhere, should ultimately make considerable additional state land available for leasing.

The total amount of additional revenue we anticipate from these proposals is only £S 90 million over the six-year period. The eventual annual yield is likely to be much more than £S 15 million, but we have allowed for the probability that the proposed increases will not be fully effective for some time.

The more efficient collection of taxes is already receiving attention⁶⁵¹ from the government. Syrian officials have estimated that receipts from⁶⁵² all sources might be increased by as much as 40% if all liabilities under existing taxes were enforced. To be conservative we have merely assumed that more effective collection could ultimately raise the yield of direct and indirect taxes, now amounting to about £S 160 million per year (average of 1953 and 1954), by about 10%. For the period as a whole we have estimated increased receipts on this account at only £S 40 million.

In the chapter on electric power we have pointed out that the net⁶⁵² operating income of the nationalized public utility companies of Aleppo and Damascus, which is already high, is likely to rise still further. If this income is not dissipated by lowering power rates, against which we strongly advise at this time, it should suffice to finance the entire power expansion program and also to pay compensation to the former owners of these companies.

Foreign oil companies now pay certain fees on crude oil passing through Syria by pipeline. Receipts of £S 6.5 million were budgeted on this account in 1954. New and higher transit rates have been periodically under negotiation, and there remains no doubt that new rates will go into effect some time during the next few years. We have conservatively estimated the increased receipts on the basis of the most recent proposals made by the Iraq Petroleum Company, although this does not, of course, imply a judgment on our part as to the merits of the offer.

Prospects of Domestic Borrowing

The possibility of domestic borrowing without serious inflationary consequences must now be examined. As a preliminary it is useful to note how much the government has borrowed in the past. Over the five-year period 1949-53 the government raised a net sum of £S 157.1 million (according to figures on the public debt) by domestic borrowing, all of it from the BSL, which, it will be recalled, has some of the functions of a central bank. In the two-year period 1952-53 funds raised by net borrowing amounted to £S 71.1 million.

This increase was offset by a sharp rise in public deposits, as indicated below (in millions of Syrian pounds):

439 the Eastern Mediterranean seaboard and on the one hand, Iraq, on the
487 other, Jordan, given the boycott of Israel.

In neither of these trade routes has Syria a monopoly. Iraq, which at present is moving about 100,000 tons of goods through northern Syria by way of the Northern Railway and unspecified quantities of goods through the desert road and Damascus, has the choice of directing these commodities to Turkish, Syrian or Lebanese port terminals. If transport to the Mediterranean ports should prove too expensive or cumbersome, Basra (Iraq) will be used even for the northern provinces of Iraq. Jordan can shift more of its trade to Aqaba and there are indications that this may happen.

In these circumstances, it is clearly in the interests of Syria to make transit through Syria attractive and profitable; it would be ill advised to sacrifice the long-term interest in transit trade to doubtful immediate gains. From that standpoint, it seems rather short-sighted to require that most goods to and from Jordan be moved by rail, irrespective of the wishes and interests of the shippers, and that goods moved from Beirut to Iraq across the desert must first be reloaded into Syrian trucks.¹ It is also inconsistent with the efforts to develop free trade zones in Syria and to encourage the use of Latakia for transit.

III FOREIGN TRADE POLICIES

439 651 Licensing

652 *Exports.* The government may impose restrictions on the exports of specific goods, including a license requirement. As of the beginning of 1954 exports of some 30 items in the tariff schedule, including various types of metals, glycerine, sulphur, fertilizers, jute cloth and sacks, and lambs, were prohibited, and the country's most important exports, (wheat, barley, flour, cotton and cottonseed, wool, sheep and certain types of cattle) were subject to license. Trade with Israel is prohibited.

These export restrictions were instituted for various reasons—to safeguard domestic supplies and to control the re-export of imported items, particularly those of strategic importance. Other regulations are designed

¹ The total volume of Syria's transit trade is presently estimated at 300,000-400,000 tons annually.

to safeguard quality. Among efforts aiming at improving and standardizing the quality of exported cereals the following may be mentioned: in May 1954 the Ministry of National Economy submitted for study to the Chambers of Commerce, Industry and Agriculture a proposed order which would require cereal exports to be accompanied by certificates as to their weight, degree of impurity and humidity. To the best of the mission's knowledge, these certificates are to be issued by reputable firms, specializing in this kind of job and cooperating with similar firms in the importing countries. This seems to be an excellent project and we recommend that it be carried out.

Several of the chief export products, such as cotton, wheat, barley, lentils, vetch, wool and hides, can be exported only through Latakia, with exceptions provided for the southern and central provinces.

Imports. Unlike exports, all imports must in principle be licensed. The only exceptions are personal effects of travellers, gifts and commercial samples up to a certain value, gold, certain commercial imports not exceeding £S 200 in value carried by travellers, and some articles imported directly across the frontier into the Jezireh and Euphrates provinces. It should be pointed out, however, that import licenses are freely issued, except with respect to items on the proscribed list.

Certain products, such as sugar, cement, timber, iron and asphalt, can be imported only through the port of Latakia, although the regulations in this respect are rather flexible and in general do not direct through Latakia a significant amount of trade that would not otherwise have gone through this port.

Trade and Payments Agreements

Bilateral. Since its independence, Syria has concluded several trade agreements, about half of which are with the principal countries of the Arab League (Saudi Arabia, Egypt, Iraq, Jordan and Lebanon). Agreements were also concluded with Greece, India, Japan, Yugoslavia and Czechoslovakia and a payments agreement has been made with France. Some of the trade agreements simply formalize existing trade relations. The most-favored-nation clause is included in nearly all agreements. In the Japanese agreement, however, it was instead provided that both partners might, when necessary, take measures to protect the production of their local industries.

Provisions relating to the volume of exchange are incorporated into the

652 postaudit functions is likely to lead to overcentralization, cumbersome pro-
451 cedures and operating delays.

9. The delay in postaudit should be reduced as fast as possible, by improving both accounting and auditing procedures, as well as by relieving the General Accounting Office of the preaudit function. Fraud and other crimes revealed by postaudit should be dealt with as provided by law but officials should no longer be held financially liable for procedural irregularities not involving fraud; in such cases attention should be directed to revising applicable procedures with the object of preventing a recurrence of the irregularities.

10. Cash balances of the Treasury and other agencies should be analyzed with a view to segregating public funds from third-party accounts. Excessive cash balances should be applied to reduction of the public debt.

● 651 III REVENUE SYSTEM

The most serious problems in the field of taxation arise from inefficient and inadequate administration and widespread evasion. The system is regressive and unequal in incidence. Although revenue has increased greatly in recent years—apparently more rapidly than national income—it will not be easy to assure a continuation of this trend. The system does not have a large degree of automatic flexibility of yield which would permit the government to capture a significant part of any increases in national income without changing tax rates.

Revenue Yield in Relation to Income and Population

The proportion of the national income collected in taxes and other government receipts appears to compare favorably with that in many other countries. In 1950 the ordinary budget receipts of the central government plus estimated receipts of all municipalities equalled 12% of estimated national income.⁸ By 1953 central and municipal receipts appear to have

⁸ In 1950 ordinary receipts of the central government were approximately £\$ 139 million (annualized estimate from 18-month fiscal period 1950-51). The total of municipal expenditure budgets in 1950 was £\$ 25.8 million, but the municipalities received Treasury-guaranteed advances of £\$ 4.8 million from the Issue Department of the BSL. This suggests that municipal budgets provided for approximately £\$ 21 million of financing from sources other than borrowing. It is not known whether municipalities added to or drew down reserve funds in 1950. The mission estimates the national income of Syria in 1950 at £\$ 1,000 million.

increased by almost 60% and to have reached approximately 16% of national income.⁹ This ratio is higher than in many other Asian countries, such as India, where the ratio is only about 7%, and compares favorably with that in several of the larger Latin American countries which collect around one-sixth of national income in taxes. On the other hand, the ratio of taxes to national income is substantially higher in most of the industrialized countries of the west.

After a period of approximate stability from 1945 through 1948, central government revenues have since increased fairly rapidly.¹⁰ In 1953 ordinary receipts were 84% greater than in 1945 (£S 217 million as compared with £S 118 million). During this period the population probably increased no more than 20%.¹¹ Thus ordinary central receipts increased from roughly £S 40 per head in 1945-46 to more than £S 60 in 1953. Even though 1953 receipts probably included some non-recurrent items, this is an impressive record.

Although the foregoing figures represent revenues in current prices, there is no evidence that, if the statistics could be stated in constant prices, the apparent increase in revenues would be diminished. On the contrary, the scanty evidence available suggests that in the period 1945-53 the trend of prices in Syria was on the whole downward (see Table 7). It may be, therefore, that the increase in the real purchasing power of government revenue was greater than the rise in nominal receipts.

The increase in revenue attained in the past few years appears to be due in large part to revisions of tax rates. It is by no means clear that under existing law, the marginal tax rate applicable to an increment of national income is higher than the average rate. If the additional income accrued in agriculture, the only taxes on the production side would be the 7% agricultural production tax and, on exported raw cotton, an additional tax amounting to roughly 8% of the value (at 1953-54 prices). Moreover, the application of the income tax on non-agricultural incomes is so limited

⁹ Ordinary receipts of the central government were £S 216.7 million (preliminary). Total expenditure budgets of municipalities were £S 37.6 million, and Treasury-guaranteed advances to municipalities amounted to only £S 0.5 million. Estimated national income was £S 1,600 million in 1953.

¹⁰ See Table 1, page 255, but note that preliminary figures place actual revenue for 1953 considerably above the budget estimate shown in this Table.

¹¹ The increase in estimated population from the end of 1946 to the end of 1952 was 14.3% (*Statistical Abstract*, 1951-52, p. 17; *General Monthly Bulletin of Statistics*, Nov.-Dec. 1953, p. 2).

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- 651 and erratic that it seems unlikely that it would claim a large fraction of an increase from this source either. Additional taxes would of course apply on the consumption side, but some of the principal excise taxes are applicable to such commodities as tobacco, for which the demand may not be highly responsive to income changes. As for imported consumption goods, many are subject to customs duties of 15% ad valorem or less.

495 TABLE 7 Price Indices for Damascus and Beirut, 1945-53

(1952 = 100)

Year	Prices in Damascus		Prices in Beirut	
	Retail ^a	Wholesale, local manufacture ^b	Cost of living	^a Wholesale ^c
1945	140	—	131	156
1946	129	—	119	133
1947	118	—	109	120
1948	112	—	106	116
1949	95	97	100	95
1950	81	90	93	88
1951	94	107	100	110
1952	100	100	100	100
1953 (Jan.-Sept.)	93	85	95	92

^a 19 foods, soap, kerosene and cigarettes.^b 16 locally manufactured commodities.^c Prior to 1950 foodstuffs represented about 96% of the total weight, of which wheat and barley alone accounted for 61%. Beginning in 1950, foodstuffs represent 48% of total weight.source: Derived from data in *Statistical Abstract of Syria, 1951-52*, pp. 149, 152; *General Monthly Bulletin of Statistics (Syria)*, Nov.-Dec. 1953, p. 35; International Monetary Fund, *International Financial Statistics*, February 1954.

- 651 Commodities for which it seems plausible to assume that import demand is fairly sensitive to income changes, and which are subject to duties of 153% ad valorem or less, include jewelry, watches and clocks, meat, milk, butter, cheese, oleomargarine, photographic films and papers and musical instruments. To be sure, certain other commodities are subject to higher rates, but it seems unlikely that taxes on these items would yield enough to add an important degree of flexibility.

The lack of automatic flexibility of revenue yield is a disadvantage to a country undertaking a program of economic development. Such a pro-

14:International Bank S-5 (1954)1955 MD1 Syria MD1

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gram nearly always requires the government to gain command over an increasing fraction of national income, to finance investment and expand current services. In the absence of automatic flexibility, frequent revisions of statutory rates and perhaps the application of new taxes are necessary if the government is to finance its expenditures in a non-inflationary way.

The Present Revenue System

The principal sources of central government revenue, in order of yield, are customs duties and excise taxes, which together account for about one-half of total revenue, the agricultural production tax, registration fees and income from public services (Table 8). Income and property taxes are

TABLE 8 - Percentage Composition of Ordinary Budget Receipts of Central Government, Selected Years

Source	1945	1948	1951-52 ^a	1954 ^b
Schedular income taxes	6.7	4.3	5.3	6.6
Tax on non-agricultural real estate	1.8	2.0	2.6	2.7
Business and professional license tax (temettu)	1.1	1.4	1.3	1.5
Miscellaneous direct taxes ^c	1.8	0.9	1.1	1.5
Agricultural production tax	7.8	10.7	12.8	10.9
Livestock tax	7.1	5.5	5.5	4.5
Excise taxes ^d	35.0	29.3	22.0	29.6
Customs duties	7.7	30.0	23.6	18.7 ^e
Registration fees	1.3	7.7	10.6	10.4
Proceeds of state property	1.6	1.3	3.0	2.9
Industries	3.2	0.3	0.2	0.4
Income from public services	24.1 ^f	5.1	10.4	19.0
All other	0.9	1.5	1.5	0.4
Total ^g	100.0	100.0	100.0	100.0

^a July 1, 1951-December 31, 1952.

^b Budget estimates.

^c Includes payment for guard services.

^d Includes revenues from tobacco monopoly.

^e Includes export duties, 7.4% of total revenues.

^f Includes certain non-recurring items associated with wartime food program.

^g Figures for the various items have been rounded.

NOTE: Figures are exclusive of withdrawals from reserve fund and loans from Issue Department.

SOURCE: Derived from data provided by Department of Budget and Financial Control, Ministry of Finance.

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- 151 comparatively minor in importance at present, accounting for less than 10% of revenue. Over the past decade customs duties and registration fees have shown the greatest relative increase in yield, owing to increased rates and greater economic activity. For a more detailed statement of receipts, see Appendix B, p. 291.

Income Taxes

Schedular income taxes at varying rates are imposed on (a) income from industrial, commercial and non-commercial trades and professions; (b) salaries and wages; and (c) income from circulating capital. There is no global tax to supplement the schedular taxes. Agricultural income is not subject to net income tax. The tax on non-agricultural real estate is in the form of an income tax, but in actual application it appears to have many of the characteristics ordinarily associated with a property tax. The tax on income from industrial, commercial and non-commercial trades and professions applies to net income from virtually all businesses and professions except agriculture. The first £S 1,500 of income is exempt. Rates range from 6% on income between £S 1,500 and £S 10,000 to a maximum of 36% on income in excess of £S 750,000. Personal exemptions are £S 480 for one wife and £S 480 for the first child. For each additional child after the first the basic exemption increases by £S 20; it is £S 500 for the second child, £S 520 for the third, and so on. The tax is based on net income after deductions for business expenses, depreciation and other Syrian taxes. Net losses may be carried forward five years.

Partnerships, joint stock companies and corporations (*sociétés en nom collectif*, *sociétés à responsabilité limitée*, and *sociétés par actions*) are taxed at the same rates as individuals, but, in the case of partnerships, personal exemptions are allowed for the partners, subject to a maximum limit for each firm. Corporations with registered shares (*sociétés par actions dont les actions sont nominales*) and whose main office is in Syria are granted a 25% reduction in the tax computed at the regular rates, but it is understood that only two corporations now qualify for this special treatment.

Taxation of industrial enterprises is discussed in Annex F.

In lieu of the regular income tax, business enterprises with gross receipts below £S 25,000 and professional men whose gross compensation for services is less than £S 15,000 pay an annual amount equal to 50%

of the license tax (temettu).¹² Because of the complexity and variability of the temettu, it is difficult to compare this arrangement with the regular income tax. In a large number of other cases the income tax is assessed on the basis of more or less arbitrary evidence of presumed income. Taxpayers are required by law to file returns but the degree of compliance is low. No official return form is furnished or prescribed by the government. In one of the principal mohafazats, the mission was informed that only about 30% of the cases were assessed on the basis of returns or accounting records.

Salaries and wages in excess of £S 100 per month are subject to tax at rates ranging from 4% on amounts between £S 100 and £S 1,000 per month to 12% on amounts over £S 4,000. No allowance is made for the first two children, but for the third child an exemption of £S 40 per month is granted. The exemption increases by £S 10 for each successive child. The tax is withheld by the employer.

Income from stocks, bonds, notes and other items of circulating capital is subject to a flat rate of 6%. No personal exemption is allowed. The tax does not apply to interest received by banks if subject to the schedular tax on business profits.

Tax on non-agricultural real estate. The annual value (actual or estimated rental value) of buildings and associated sites is subject to tax at rates ranging from 7% on the first £S 2,000 per year to 20% on amounts in excess of £S 20,000. These rates are applied separately to each parcel, that is, the total income of the owner from all real property is not aggregated to determine the applicable rate. A shift to a personal basis of assessment is contemplated, however, after completion of a general reassessment of real estate. Unoccupied non-agricultural land is subject to tax on capital value at rates ranging from 0.5% on the first £S 20,000 to 1% on amounts in excess of £S 100,000. Agricultural land and buildings are exempt.

General reassessments are made only once each 10 years except that it is provided that a property whose value increases or decreases by more than 25% in the interim shall thereupon be reassessed. In practice, it appears that this is not usually done. A general reassessment of property was under way at the time of the mission's visit and was expected to be completed in 1954 or 1955.

New factories, administrative buildings, and residences for employees and workers are exempt for the first six years. Temporary exemptions are

¹² This surcharge is reported in government accounts as part of income tax collections.

651 also allowed for new construction to encourage tourism, urbanism, settlement of nomadic tribes and other purposes.

Business and professional license tax. A license tax is imposed on industry, commerce and the professions. The rather involved calculation of the tax takes into account such factors as the rental value of the place of business, number of employees and gross receipts, and also includes a fixed element for different trades and professions. In general the tax is heavier in large cities than in small towns. Large tourist hotels and factories established after September 1952 are exempt for the first five years.

Miscellaneous direct taxes and fees. The other principal direct taxes and fees are the fee for guard services (night watchmen), irrigation tax, cadastral registration fee and inheritance tax. Most important of these from the revenue standpoint is the fee for guard service, which takes the form of a surcharge to the tax on non-agricultural real estate. The inheritance tax is rather elaborate in form, being graduated according to the degree of consanguinity and the size of the transfer. It yielded only £S 370,000 in 1953; the budget estimate for 1954 is £S 100,000. The irrigation tax was extensively revised in January 1954 and may in future yield more than the comparatively small sums obtained from other sources in the past (£S 473,000 in 1953).

Registration fees. In addition to fees for registration of real estate titles, judicial fees and stamps on legal documents, this category includes motor vehicle license fees, the army tax on electricity (a stamp tax on electricity bills) and consular and foreign trade fees.

Agricultural taxes. The agricultural production tax is a flat 7% of the wholesale value of marketed agricultural produce other than livestock, which is taxed separately. Commodities consumed at home or in the village are exempt; so are certain other comparatively minor items. Liability accrues when the commodities are moved outside the village, the tax usually being collected at posts along the roads on the basis of price lists prepared for each consumption center by local commissions. An annual head tax is imposed on livestock at the following rates:

Sheep and goats	£S 1.50
Camels	£S 2.20
Water buffaloes	£S 5.20
Hogs	£S 8.20

Sheep, goats and pigs less than one year old and camels less than two

years old are exempt. Cows, oxen, horses, asses, mules and other animals not listed above are not taxed.

Excise taxes. 1. Tobacco and tombac:¹² The production and sale of these products are a state monopoly. In recent years profits of the monopoly have equaled approximately one-half of gross sales, which is equivalent to an excise tax of approximately 100% ad valorem.

2. Petroleum products: Taxes on the consumption of petroleum products are 14.5 piasters per liter on gasoline and 5.0 piasters per liter on fuel oil. In addition there are municipal consumption taxes and customs duties on petroleum products.

3. Refined sugar: This commodity is taxed at a rate of 23.5 piasters per kilo. Products containing sugar are taxed proportionately to their presumed sugar content.

4. Cement: Cement is subject to a tax of $\text{£S } 15$ per ton.

5. Miscellaneous: Specific taxes are levied on various types of alcoholic beverages and on certain minor goods and services.

Import duties. Import duties appear to be about equally divided by yield between ad valorem and specific taxes. A rough estimate for the period 1950-52 suggests that the weighted average of all import duties was equivalent to about 9-10% of the value of imports. Imports subject to ad valorem duties are valued at the official exchange rate ($\text{£S } 2.19 = \text{U. S. } \$1.00$). In early 1954 this resulted in a valuation about 40% lower than that which would have been obtained by application of the free exchange rate ($\text{£S } 3.575 = \text{U. S. } \$1.00$) at which payment for most imports except petroleum is made. Ad valorem rates tend to be fairly low even on luxury items. For example, effective rates on distilled spirits range between 18.4% and 36.8%. An effective rate of 24.5% applies to items such as many cosmetics, radios, phonographs and records, and coffee. Effective rates of 15.3% or less apply to items such as tea, most spices, oleomargarine, wines, photographic film and papers, jewelry, electric bulbs, watches and clocks and musical instruments.

Export duties. During the boom in raw materials' prices after the beginning of the Korean war, many countries imposed or increased export duties. Syria joined this movement rather belatedly, adopting export taxes on raw cotton in 1952 and on cereals in 1953. The tax on cotton is still in effect, but the taxes on cereal exports were repealed in mid-1954. The tax on cotton is 9 piasters per kilo on unginned cotton and 20 piasters per kilo

¹² A preparation of tobacco and other materials smoked in a hookah (water pipe).

651 on ginned cotton. This tax applies in addition to the 7% agricultural production tax. In August-September 1953, the export duty on ginned cotton amounted to about 8% of the wholesale price in Aleppo.

Other revenues. Proceeds of state property are composed mainly of receipts from rent or sale of real and personal property and income from salt mining. The most important items of income from "public services" are petroleum revenues, which arise out of agreements with the pipeline companies, profits of the Exchange Office and receipts in lieu of compulsory military service. Negotiations now under way are expected to result in an increase in petroleum revenues.

Municipal revenues. The municipalities, generally speaking, are allowed to levy taxes within maximum limits specified by central government legislation. Municipal taxes comprise surcharges to national taxes, collected by the central government on behalf of municipalities, and taxes administered entirely by the municipalities themselves. The principal surcharges include those on the schedular income taxes (10% of the national taxes), on the tax on non-agricultural real estate (maximum of 40%) and on the temettu (maximum of 30%). The central government also collects for the benefit of municipalities excises on petroleum consumption (15 piasters per liter of fuel oil and 3.5 piasters per liter of gasoline), and a 5% ad valorem tax on imported articles. The latter tax is reduced to 1% on items which are either exempt from import duties or subject to rates not in excess of 1%. Taxes collected by the municipalities themselves include levies on motor vehicles, retailers of alcoholic beverages, places of amusement, the sale and slaughter of animals and public utilities. Cities are also allowed to levy special assessments equal to one-half of the increase in value of property due to the construction of streets and other public works. No details are available regarding the amount of revenue obtained from various sources by the cities. Officials of Damascus and Aleppo, however, estimate that about one-third of the revenue of these cities comes from taxes administered by the central government and about two-thirds from taxes and fees collected by the cities.

General Appraisal

Although Syria's revenue system provides fairly adequately for present functions of government, it needs to be strengthened to meet the demands

of an expanding economy. The mission believes that the time has come 651 ● for a re-examination of the system as a whole.

The mission's survey has revealed no glaring cases in which it can be shown that the tax system is now seriously interfering with economic development. It is by no means certain, however, that this would continue to be true if rates of existing taxes were appreciably increased and administration tightened.

But, although the present tax system does not interpose major barriers to development, it is open to the criticism that it is not designed to exercise certain desirable influences on economic activity. For example, the absence of a tax on agricultural land makes it easier to hold large blocks of land for speculative purposes than it would be if the land were subject to an annual tax even if the land yielded no current income. In the cities, income from real estate is probably subject in most instances to a lower rate of taxation than income from trade and industry. This tax differential may to some extent reinforce the non-economic preference for investment in real estate rather than in more active enterprises characteristic of most underdeveloped countries. The complete absence of progressive taxes on agricultural income and wealth tends to favor the large landowner over other investors or entrepreneurs who may contribute more to economic development.

Another major consideration in evaluating the tax system is that it appears to be highly regressive in the sense that taxes take a much larger fraction of the incomes of the poor than of the wealthy. This is characteristic of many of the principal excises and import duties, which together account for over two-fifths of total revenue in the 1954 ordinary budget and which come to a large extent from articles of mass consumption. Taxes on agricultural production, livestock and exports, which contributed almost one-fourth of estimated total revenue in 1954, are more difficult to assign to income groups but it seems likely that these taxes are regressive or at best proportional to income for the majority of the agricultural population. To be sure, the fact that neither the production tax nor the export duties applies to articles consumed at home or in the village offers a significant degree of relief to the poorest farmers, provided they grow grain and other crops for local consumption rather than cotton or other commercial crops. This feature, however, is partly offset by the livestock tax, which, being specific in amount and generally applicable, imposes a heavier load

- 651 on the owner of low-quality animals than on the owner of the better grades. In the non-agricultural sector, regressivity is to some extent mitigated by the direct taxes on income and non-agricultural real estate but, owing to low rates and ineffective administration, these taxes produce less than one-tenth of total ordinary revenues (1954 budget).

The regressive nature of the Syrian tax system must be considered objectionable in the light of ideals of justice and political principles that have been accepted in many parts of the world. Admittedly, however, there are wide differences of opinion as to the feasibility of dispensing with regressive taxes and concerning the degree to which it is appropriate to impose taxes designed to exact contributions increasing progressively with the taxpayer's income or wealth. An economic objection to steeply progressive taxes is that they are likely to fall with particular severity on savings, because middle and upper income groups account for the greater part of total savings. In a capital-poor country, where productive investment is limited by lack of savings, this consideration is especially important. On the other hand, low taxes on the wealthy allow luxurious consumption and hoarding of gold and foreign exchange, as well as saving for productive investment. Furthermore, regressive taxation is economically harmful if the system presses so heavily on the poor that their consumption is reduced to the point of impairing their health and working efficiency, or if it leaves no margin for a gradual raising of their standard of living. It should also be noted that taxes on non-essential consumption and on net income exhibit more automatic flexibility of yield than do taxes on essentials, and hence claim a larger proportion of national income as production grows, even though tax rates are not altered. The weight to be attached to the various considerations is a matter of judgment on which no general agreement can be expected. The mission is not inclined to urge adoption of rigid standards in this controversial area but it does believe that the regressiveness of the Syrian tax system could be sensibly lessened and even reversed by measures that would interfere little if at all with economic development.

As a final point of general appraisal, informed opinion holds that tax administration in Syria is in many respects ineffective and that tax evasion is widespread. Administration and compliance are especially weak in the case of the schedular income taxes and the inheritance tax. The majority of income tax assessments appears to be made in a rather arbitrary manner on the basis of fragmentary evidence with respect to volume of business,

living standard of the taxpayer, opinions of others in the business or profession, and other presumed indications of net income. This is unsatisfactory from both the government's and the taxpayer's point of view. The inheritance tax in practice applies mainly to real estate. Even the application of other comparatively simple taxes is hindered by lack of trained personnel and modern procedures and equipment. 651

Suggested Reforms

Administration. The administrative side of the revenue service urgently requires revision. Many of the present defects could be eliminated by wider recruitment and by offering better compensation to revenue officers, while imposing a higher standard of technical competence and personal probity. The adoption of modern office methods, opening the way to prompt and decisive action to collect delinquent taxes, could also have far-reaching effects which would more than justify any small increases in personnel which may be required. Although the attitude of taxpayers cannot be changed overnight, improved administration, together with the strict and impartial punishment of fraud and evasion, can be expected in time to induce voluntary compliance. By these methods considerably more revenue could be collected under the existing tax schedules, with a commensurate increase in equity and without initiating inadvisable experiments with new taxes which the government might be unable to enforce effectively.

Income taxes. With the growth of industry and commerce and improved tax-collecting machinery, income taxes can assume a larger role in the Syrian tax system. Under present conditions, however, it would be unwise to count on a major increase in revenue from such taxes in the near future. The immediate problem is rather to rationalize the structure and improve the administrative procedures. Under the schedular income taxes there are now wide differences in tax liabilities on any given amount of income, depending on the source from which it comes (see Table 9), although the rationale of these differences is frequently obscure.

The mission recommends that Syria follow present world trends by substantially reducing, if not completely eliminating, differences in tax liability based on source of income. This would require—(a) adoption of similar rates and exemptions for the existing schedular taxes; (b) transformation of the tax on non-agricultural real estate into a true schedular

651 tax on net income; and (c) adoption of a global complementary surtax on large incomes from all sources. It may be considered equitable to tax earned income less heavily than property income. If so, a special credit or reduced rate could be provided for earned income up to a reasonable maximum. A favorable schedule for salaries and wages alone would not be adequate for this purpose since the arguments commonly advanced in

TABLE 9 Comparison of Income Tax Liabilities on Incomes of Selected Amounts from Different Sources^a

(Tax liability according to source of income^b)

(£S)

Annual ^c net income	Business or profession ^d		Salary or wages ^e		Circulating capital	
	Amount	% of income	Amount	% of income	Amount	%
1,200 . . .	—	—	—	—	72	6
2,500 . . .	31	1	33	1	150	6
5,000 . . .	181	3	133	3	300	6
10,000 . . .	481	5	333	3	600	6
15,000 . . .	931	6	593	4	900	6
20,000 . . .	1,381	7	893	4	1,200	6
50,000 . . .	6,181	12	3,533	7	3,000	6
100,000 . . .	17,431	17	9,533	10	6,000	6
200,000 . . .	44,431	22	21,533	11	12,000	6
500,000 . . .	132,931	27	57,533	12	30,000	6

^a Not including surcharges for municipalities and schools.

^b For married man with wife and three dependent children.

^c After allowing deductions for business expenses and other Syrian taxes.

^d No account is taken of the provision fixing the income tax liability at one-half of the licence tax (temettu) in the case of a business enterprise with gross receipts below £S 25,000 and of a professional man whose gross compensation for services is less than £S 15,000.

^e Assumed to be received in equal monthly instalments.

support of differentiation apply to income attributable to the personal efforts of business proprietors and professional men as well as to salaries and wages.

Transformation of the tax on non-agricultural real estate would be accomplished by requiring all individual income from taxable real estate to be aggregated in order to determine the applicable tax bracket, having regard to customary personal exemptions. This should be administratively feasible; income from real estate is comparatively easy to detect in view of its association with tangible property and the possibility of using title

records to verify ownership. A modest beginning has already been made⁶⁵¹ in at least one revenue office in bringing together assessment data for different properties owned by the same person. The tax base should continue to include both receipts from rented property and the imputed rental value of owner-occupied property, but both components should be assessed more frequently than once in 10 years. Ideally, all income should be assessed annually, although this may not be feasible as regards imputed income from owner-occupied real estate. The tax on capital value of vacant urban land should be retained as a separate levy.¹⁴

It is stated in the Main Report that a global complementary tax applicable to income from all sources is urgently needed to round out the tax system. As long as separate graduated rate schedules apply to income from different sources, a person receiving income from two or more sources will pay less tax than one receiving the same total amount of income from a single source. Even if the rates and exemptions in the various schedules are identical, the person with income from two or more sources will enjoy the benefit of the low first-bracket rates on each type of income and will be subject to a lower top rate than the person who receives all of his income from one source. The global tax should be designed to adapt the income tax more closely to ability to pay and to introduce a greater element of progressivity. It should therefore apply to agricultural income as well as to income subject to schedular income taxes. Initially, this tax should apply only to a small minority of taxpayers. At this stage major reliance would still be placed on graduated schedular taxes, which are easier to administer and more familiar to Syrian taxpayers than a global complementary tax. As administrative efficiency and taxpayer cooperation improve, coverage of the global tax could be broadened. Ultimately, graduation of income tax rates could be accomplished mainly through the global complementary tax, and the schedular taxes would incorporate either a uniform flat rate or only a few brackets. This type of arrangement has been found to be most convenient in many countries.

Application of the same graduated rates to joint stock companies or corporations and to partnerships as well as to sole proprietorships, which

¹⁴ The fee for night watchmen's services (a national revenue) and the surcharge for municipalities might continue to be based on the assessed income or capital value of each parcel of property without allowance for personal exemptions or the application of graduated rates. *In rem* taxes of this nature are levied in many parts of the world to help finance local governments and to pay special costs of property protection.

651 is now the general rule in Syria, is questionable, because the system makes no allowance for the number of owners of the enterprise. An arrangement more logical than the present practice would be to collect a flat-rate tax on the income of companies and partnerships, to be treated as a withholding tax against the personal tax liabilities of resident shareholders and partners. This arrangement, however, does not appear to be administratively feasible at the present time.

The authorities should prepare and distribute standard income tax forms and every effort should be made to increase the proportion of cases assessed on the basis of systematic records. Steps in this direction might include imposition of a financial penalty on taxpayers who fail to file proper returns¹⁵ and adoption of a policy of setting high presumptive assessments.

Agricultural taxation. The agricultural production tax is by no means an ideal measure, but it is established and yields large amounts of revenue. The tax will probably have to continue for some time as the principal means of taxing agriculture. The desirability of instituting an annual tax on large holdings of agricultural land has already been stressed.

It would not be feasible to subject the mass of small farmers to a sched-ular income tax and it would be unfair to do so, even if feasible, as long as the agricultural production tax is maintained. But it would be appropriate to apply the global complementary tax to the relatively small number who receive large amounts of income from agriculture and from owner-ship of agricultural land. It might be desirable, however, in computing the global income tax to allow a deduction or a partial credit for the agri-cultural production tax. The difficulties of determining net agricultural income of large operators from agriculture, although admittedly great, are probably no greater than those of assessing income tax in many lines of business and the professions. Reliance would probably have to be placed at the outset mainly on indirect evidences of presumed income, such as area and quality of cultivated land, volume of marketed crops, ownership of irrigation pumps and agricultural machinery, and so on. The taxpayer should, however, always be encouraged to furnish adequate accounting records to contest a presumptive assessment.

The mission earlier commented that in view of the fact that the live-stock head tax (about 5% of ordinary revenue) is so arbitrary and difficult

¹⁵ An exception to this requirement might appropriately be made for wage earners subject to withholding tax.

to apply, it seems desirable to abolish it and to subject sales of livestock and wool, hides and skins to the 7% agricultural production tax applied to marketed produce. Milk, butter and cheese might be exempt for social reasons. 651

Export taxes. The mission believes that at present prices cotton cultivation is still sufficiently profitable to warrant continuation of the existing export tax. We have, however, recommended that the tax should be revised to make its rate responsive to price changes. We are not prepared to formulate a precise schedule of rates, but we do recommend that the principle of the sliding scale be adopted and put into effect at once. Early action is desirable so that cotton growers may make their plans with the assurance that the export tax will be automatically adjusted if prices have fallen by the time the crop is marketed. This revision would introduce a desirable element of flexibility in the tax and would thereby minimize adverse effects on production. In selecting the schedule of rates it would be advisable to bear in mind the revenue needs of the state and to avoid going too far in the direction of flexibility, however desirable that characteristic may be from the point of view of production incentives.

Excises and import duties. Increased taxes on non-essential consumption items should be regarded as one of the principal sources of the additional revenue required to finance an expanded development program. In the absence of an efficient personal income tax, excises and import duties on non-essentials can also help to offset the regressive bias of the tax system.

It has already been stressed that valuations for purposes of ad valorem import duties should be based on the free exchange rate rather than the official rate. Under the present arrangement duties appear to be much higher than they actually are and it is by no means certain that the combination of high nominal rates of duty and artificially low valuations always results in a tax liability which reflects a considered policy. Where the change in valuation method produces a higher effective duty than is desired, nominal rates of duty could be adjusted.

Revenue from state domain. The mission believes that Syria should obtain more revenue from state domain lands. According to figures supplied by the Ministry of Agriculture, the government is obtaining £S 1.8 million annually from rental of 551,000 hectares of state land, or approximately £S 3.30 per hectare. We think that rentals should be increased to at least £S 5 per hectare. At current prices of wheat and barley this would equal about 10% of net yield (that is, gross yield less seed). The 651 427

- 651 increase would add approximately £S 1 million per year to revenues.
- 427 Existing contracts and administrative problems would doubtless cause some delay in putting this recommendation into effect. Nevertheless, a significant increase in receipts could be obtained over the next few years.

IV PUBLIC DEBT

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Present Situation

The Syrian public debt amounted to £S 312 million at the end of 1953.¹⁸ There is no considered public debt policy. Borrowing is not closely correlated with the government's need for funds, and in the past large amounts have sometimes been borrowed when the Treasury had available to it cash balances far in excess of immediate needs. In addition, no provision is made for regular service or retirement of the debt. The entire internal debt is held at low rates of interest by the BSL and the government has not attempted to develop a market for its securities among private investors. Moreover, the government does not seem to be fully aware that Treasury-guaranteed loans from the Issue Department to government entities and industrial companies are as much a use of the government's credit as direct government borrowing from the Issue Department and that the economic significance of the two types of transaction is the same.

The practice of financing expenditures by borrowing from the Issue Department is always potentially inflationary, but it can be acceptable and helpful when used in moderation and adjusted to economic conditions. It is objectionable if the volume of such financing is not based on a careful appraisal of over-all monetary conditions as well as financial needs of the government. Syria has so far largely escaped the inflationary consequences of resort to the Issue Department mainly because a considerable part of the borrowing in recent years has been offset by increases in cash balances. But borrowing when large cash balances exist is not only unnecessary but dangerous, since there is always the possibility that the various government entities might try to use their balances at a greater rate than the economy could absorb without risking inflation or the depletion of foreign exchange reserves.

¹⁸ See page 261.

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larger, and exceed exports which have been falling off. On the other hand, exports of knitted, cotton and rayon goods and other articles of clothing, garments, underwear and socks exceed imports by far. 288
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It should be kept in mind, however, that the entire cotton textile industry is well protected. Imports of yarn and cloth are subject to rather high import duties: 45% ad valorem (about 33% at the free rate of the Syrian pound); duties on fine cotton yarns are substantially lower. In contrast, rayon and woolen yarns are duty free. Socks and stockings (except those made from woolen yarns), men's shirts and pyjamas for men and women may not be imported. This protection, though helpful to the home market, hampers the export trade, particularly in finished goods. This is especially so of those goods requiring use of imported materials in their production; no adequate tariff rebate is given on foreign materials in the exported finished goods. Syrian shirt manufacturers, for instance, claim that with existing machinery they could easily double their production and compete in the export market but for these unfavorable conditions. Although most of the surrounding countries heavily protect their own textile industries, some of Syria's finished textile goods seem to be in a position to compete on the international market to the extent that the component materials are not burdened with protective duties. [51]

In the dyeing, printing and finishing industry—which for a long time lagged behind—a considerable expansion is still anticipated and seems fully justified. Additional machinery was being installed to make possible a full three shifts.

The worsted and woolen cloth industry is not as well equipped with modern machinery as the cotton textile industry. Although the existing plant operates little below capacity and imports of cloth are rather significant, the industry shows no great inclination to expand. Despite the fact that imported yarn is duty free and imported cloth is subject to a rather high tariff, there is keen foreign competition by Italian cloth in the cheaper ranges, British cloth in the higher class and by second-hand suits from the United States. Complaints were heard that the transport charges on the bulkier imported yarns weigh heavily on the industry in comparison to the cost of transporting imported cloth. This drawback seems difficult to overcome. Exports of woolen yarns and cloth have been running well under 7% by value, of imported yarns and cloth, and in view of the factors mentioned above, no large expansion of exports is to be expected. For recent figures, see Table 1 of the Appendix.

433 The vegetable oils and soap industries have not generally been very
434 profitable. One of the larger Damascus companies had substantial losses in 1949 and 1952. In 1950 and 1951, however, it earned 20% and 30% on its paid-in capital. One of the more important companies in Aleppo apparently barely broke even in 1951 and 1952 and suffered severe losses in 1953, so that it was reported to have gone into liquidation in 1954. A new Aleppo company which started operating in 1952 apparently has been somewhat more successful to date.

The large glass factory near Damascus earned profits of about £S 200,000 on £S 7 million paid-in capital in both 1952 and 1953. Prior to these years of modest profits it consistently suffered losses except for the year 1950 when it showed a net profit of £S 183,140.

On the profitability of tanneries there is little information, although one evidently earned almost 7% in 1952 and 14% in 1953 on its paid-in capital.

The rubber shoe industry is apparently highly profitable, if one can judge from the data available on one company which earned almost 55% on its paid-in capital in 1952, and approximately 85% in 1953.

The match industry is suffering from overcapacity and, owing to keen competition, seems to have made little profit in recent years.

For other industries, such as milling, beverage, paints, etc., no information is available on profits.

651 III GOVERNMENT AND INDUSTRY

The relations between government and industry in Syria will be discussed under the following headings: (1) tariff policy and embargoes, (2) credit facilities, (3) fiscal privileges, and (4) other controls and incentives.

Tariff Policy and Embargoes

Syria achieved customs autonomy for the first time in recent centuries in March 1950, with the termination of the Customs Union with Lebanon. As a natural consequence, each country began to apply its normal tariffs to imports from its former partner. Only a few days later, the Syrian tariff on imports of certain foreign products which competed with local industry

was increased from 25% ad valorem to 40% or 50%. This was true of 651
canned vegetables and fruits, fruit juices, jams, candy, woolen and mixed
cotton cloth and various kinds of glass. In estimating the amount of pro-
tection thus provided it should be kept in mind that the tariff duties are
based on the import prices at the official rate of exchange, but as the goods
are actually paid for at the free rate (with the exception of mineral oil
products) the incidence of the duties is less than two-thirds of the appar-
ent rate.

In 1950 also a special customs duty of 5% was introduced, as a so-called
"consumption tax" on imported products, substituting for various municip-
al taxes previously collected. Although largely revenue-producing in
character, this measure somewhat increased the protective effect of the
tariff.

Shortly after ending the Customs Union the Syrian government enacted
legislation bringing import licensing, until then a matter for joint decision,
under its control. In view of the favorable development of business condi-
tions following the outbreak of the Korean war, application of licensing
was deferred.

By early 1951, however, several factories appeared to be overstocked
with raw materials purchased at boom prices and certain weaknesses
inherent in the Syrian industrial structure became more apparent. Several
industries seemed to be overexpanded in relation to internal consumption
and insufficiently prepared to meet foreign competition both at home and
in the international market. They requested the government to give them
a preferential position with respect to the supply of essential local raw
materials, to impose import restrictions on competitive foreign goods and
to adjust importation of industrial machinery to the needs and absorptive
capacity of the country.

As a result, between March and June 1951 the tariff on a large number
of finished textile goods (hosiery, men's and women's clothing, etc.) was
raised from 40% to 50%, and an embargo was introduced on "job lots of
cloth" (cloth damaged, or of inferior quality or otherwise not suitable for
sale through normal channels), imported in considerable quantity and
greatly in demand by the poorer groups of the population. Imports of
looms and knitting machines were brought under special control. The
export of several materials in short supply (e.g., certain metals, fertilizers,
jute sacks, paper and paperboard, and glycerine) was forbidden.

Thereafter, the protectionist policy with regard to industry became

65/ more pronounced and systematic. The regulations regarding the licensing of imports were more strictly applied. The normal tariff on glass was raised to 70% and on various sorts of soap to 40% or 50%. The export of a large number of important raw materials, raw cotton, cotton seed, oil cakes, raw wool, all fruits and vegetables, was subjected to licensing. Shoes and boots were added to the embargo list. Although the embargo on "job lot cloth" was strongly protested, it was not lifted, and instead it was extended to second-hand cotton and silk clothing.

65/ The year 1952 was characterized by a policy of rigorous industrial protectionism. The Minister of National Economy, given almost discretionary power to institute export and import embargoes and licensing requirements, used these powers with little restraint, particularly as to import embargoes, which were imposed on four principal categories of imports: (1) goods locally produced in quantity adequate to meet domestic requirement; (2) goods for which similar local products could be substituted; (3) luxury goods; and (4) machinery which would increase the capacity of an already overequipped industry.

The restrictions and controls on exports were somewhat extended and a de facto monopoly was established with regard to import, export and wholesale trading of sugar.

These measures of extreme protectionism, supplemented by a stricter enforcement of the control on the utilization of foreign exchange by importers and various other measures which will be discussed later, made it possible for many months to charge local customers relatively high prices, compared to those prevailing in the surrounding markets, and to make substantial profits. It also facilitated agreements among manufacturers in defense of their common interests and to reduce internal competition. Complaints from those whose interests were particularly affected and a more general dissatisfaction created by a rise in the cost of living induced the government to take steps to reduce prices. Acting under general legislation enacted in 1951, and specific legislation with respect to sugar and cement, the government fixed lower prices for goods such as cement, yarns and vegetable oils and reduced the tax on sugar.

However, it was thought even in government circles that the import prohibitions had gone too far. Not only was the cost of living increasing but the income from customs duties began to drop, and smuggling and evasion of price-fixing rules became a most profitable activity. In April 1953 action of the Minister of National Economy with respect to imports

and exports was subjected to the approval of the Council of Ministers. This was followed by the withdrawal of embargoes on various non-competitive imports, higher tariffs being substituted in some cases. 651 ●
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As of autumn 1954 all embargoes on imported goods which directly compete with national products were still in effect, with the exception of the embargo on men's shirts, underwear and pyjamas. Imports of cotton gins are forbidden, to prevent further overexpansion of the ginning industry, and the importation of second-hand looms and knitting machines is prohibited, to ensure the installation of new and modern machinery; importation of almost all items, including machinery, is still subject to licensing. There has been almost no change in the list of prohibited exports or of those which must be licensed. Although the export tax on wheat has been repealed, cotton exports are still taxed; there were certainly good financial reasons for this, but it means in fact a continuation of the element of protection which this duty represents, in favor of the local cotton processing industry. On the other hand, products subject to an embargo or high protective duties are no longer subject to price control. The government is now relying on the effect of internal competition.

Credit Facilities

During the mandate, in 1929, the Syrian Government instructed the Minister of Commerce and Agriculture to establish an industrial bank with a capital of £S 500,000, in which the government was to participate; this was never done.⁶ 652
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Not until 20 years later, in June 1949, was the Minister of Finance authorized to guarantee loans to Syrian industrial corporations (*sociétés par actions*) for their first installation or to enable them to continue operations. The amount to be reimbursed under the guarantee could not exceed half the paid-up capital of the corporation and the period of repayment was not to be longer than three years. Eligibility of applicants, their needs and the conditions of both loan and guarantee were to be determined by a special committee; the Minister of Finance was authorized to require a mortgage on the property of the corporation, the mortgage to have preferred position.

Of the 18 loans totalling £S 23.627 million made by January 1952,

⁶ *Le Rôle du Crédit dans le Développement Economique de la Syrie*, Mich. Thome, Madrid, 1953, p. 157.

quantities to be exempted have been made by government officials. The mission suggests that for the system of individual decisions involving political judgment there be substituted in the law itself a general exemption provision on as liberal a basis as possible. 654 433

We cannot endorse the temporary exemption from income tax for new firms and for profits on new investment by existing firms. Our chief objection to these provisions is that an income tax exemption leads to rather irrational and sometimes inequitable results. It is obviously most important to the companies realizing the highest profits and it is of no value to those making no profits during the period of exemption. Furthermore, with a graduated tax such as Syria's, large firms benefit more from the exemption than do the small- and medium-sized firms. The exemption of profits derived from expansion of existing businesses, as distinguished from exemption of new firms, presents serious administrative difficulty in connection with the allocation of total profits between the new and the old part of the business. No fully satisfactory solution for this problem can be found even when both administrators and taxpayers are highly skilled and sophisticated in accounting techniques. Yet it would be undesirable to confine the concession to new firms, since additional investment in an established business may often be more productive than the same investment in a new business, especially where, as in Syria, there is a shortage of experienced managers. 654 433 651

The simplest way to achieve most of the benefits of temporary income tax exemption without its disadvantages and difficulties appears to be through liberalization of the depreciation or amortization allowances under the income and profits tax. In other words, the taxpayer should be allowed to write off against taxable income the original cost of plant and equipment in a period shorter than the normal useful life. For any given asset, accelerated depreciation results in a postponement, rather than a complete cancellation, of income tax liability but the investor can extend this postponement indefinitely by acquiring new assets when the first group has been written off for tax purposes.

Accelerated depreciation reduces or eliminates the chance that the income tax will prevent recovery of the capital outlay. For a rapidly growing firm it may offset taxable income and thus be virtually equivalent to exemption. The concession is automatically cancelled if the firm ceases to expand. Accelerated depreciation puts the emphasis on new investment, whereas tax exemption may grant unnecessarily large benefits to highly

654 profitable firms which do not choose to expand. Furthermore, depreciation
483 raises no great administrative difficulties.

657 Our recommendation would provide a fairly effective substitute for income tax exemption, especially the recommendation that the tax on non-agricultural real estate be transformed into a tax on a true net income is also adopted. We realize, however, that a special problem arises in adapting the accelerated depreciation approach to Syrian conditions. Businesses with gross receipts of less than £S 25,000 per year pay an amount equal to 50% of the temettu tax in lieu of the regular income tax. Since these firms do not compute net income or depreciation allowances they could hardly be brought under the general scheme. It is suggested that these smaller firms be allowed to deduct from their tax liability a credit related to the amount of any new investment in buildings, machinery or other industrial equipment.

The present exemption of reserves up to 10% of annual profits which, within two years, are devoted to expansion of the enterprises would seem to be extremely difficult to administer satisfactorily; proper administration would call for careful supervision to assure compliance. This provision could well be eliminated. The law might provide, however, that if deduction of accelerated depreciation after an investment has actually been made produces an accounting loss, the loss might be carried back against income of the two preceeding years. The present law allows losses to be carried forward against income for five years but does not provide for a carry-back of losses.

662 *Credit facilities.* Our principal objections against the scheme of gov-
483 ernment-guaranteed industrial credits can be summarized as follows:

(1) It applies only to corporations, thus excluding the large majority of Syrian industrial enterprises, which are not organized in this form, and in effect reserving its benefits to a small group of large companies, although there is no reason to assume that all credit needs outside this group can be met by other means. (2) The limitation of the life of the guaranteed loans to three years (later extended to eight) does not sufficiently allow for adapting the maturity of these loans to the requirements of the projects. As an instrument to facilitate long-term industrial financing the provision may in some cases be too rigid. (3) The 3% interest rate, appreciably below the prevailing market rate, puts the beneficiaries in an exceptionally favorable competitive position as against non-beneficiaries, and may stimu-

652 total which reasonable expectations indicate can be raised. In the Main
433 Report we have suggested capitalization of £S 30 million, and suggested the respective ratio of government and private capital.

The cost of necessary managerial and technical staff might run up to £S 300,000 per year and other costs might rise to the same figure with an increase in the volume of business. Possibly half of the cost of the technical staff might in the long run be recouped from fees for technical services. To economize on operating costs it would be advisable to have the commercial banks act as the bank's agents in receiving applications for loans and disbursing and servicing loans in return for a small commission.

651 *Tariff policy and embargoes.* It is far from clear that the trend toward
431 almost complete protection of industry from the impact of foreign com-
651 petition, qualified to only a limited extent by certain provisions of various commercial agreements, has reached its limits.

We have previously recommended reconsideration of this policy. Protection of many industries has gone too far in the direction of national isolation; the balance should be restored by giving more weight to international integration. Liberalization of external trade should be one of the items on Syria's economic program.

In making this suggestion the mission is mindful of the fact that Syria's balance of payments position is not very strong and that the condition of the country's gold and foreign exchange reserves obliges the government to proceed with caution. Yet, as long as internal monetary equilibrium is preserved and the foreign exchange policy remains sound, the significance of these limitations ought not to be exaggerated.

We do not recommend immediate termination of the system of licensing imports since it enables the authorities to register at an early date the expected inflow of foreign goods. This may be considered a legitimate precaution, especially if the restriction of licenses is reserved to times when the balance of payments position is endangered. Under licensing, however, discrimination among imports is unavoidable. It should be realized that the need for such a measure indicates that there is something fundamentally wrong with the factors which determine external equilibrium; rather than continuously applying the palliative of direct import restrictions, Syria should try to remedy this situation. Even if direct import restrictions are temporarily unavoidable, they should not preclude remedial action; on the contrary, they should as far as possible contribute to bringing about an improvement in the basic conditions.

The licensing of certain local raw material exports in order to give preference to the home market can have several objectives. If its purpose is to permit the local consumer to purchase the raw materials at prices lower than those at which they can be sold in foreign markets, it deprives the suppliers of a price differential; this is difficult to justify. But to a large extent the measure appears to have been inspired by the consideration that many Syrian industrial enterprises lack sufficient working capital and credit facilities to enable them to finance large seasonal raw materials purchases. In that case, the objective would then be to assist local industry in overcoming a competitive handicap, as against financially stronger foreign buyers, by temporarily restricting local raw material exports, without primarily intending to create a preferential price. There may also have been a desire to protect the local raw material suppliers from being forced, for liquidity reasons, to sell out at whatever prices they could obtain at the earliest time, thus endangering steady employment in the local processing industries. If these are the purposes of the licensing measures, provision of adequate storage and credit facilities for both local consumers and suppliers would make such licensing less urgent or even superfluous. Various of our recommendations relate to such facilities, and we suggest that if and when these are adopted the system of export licensing should be discontinued.

The mission has considerable objection to the imposition of embargoes. Import embargoes tend to prevent direct foreign influence on the local prices and qualities of the commodities involved. All the arguments previously advanced against an overstressing of the concept of development in isolation as opposed to development in an international economy apply here. Granted that Syrian industry needs some protection, the mission believes that such stringent measures are not called for, especially since they make it impossible for enterprise and consumers to purchase the particular foreign goods however urgently they may need or want them.

In a limited number of cases the government itself has already substituted higher tariffs for embargoes. Unless such duties are completely prohibitive, this means in principle a reintroduction of international competition, even though in a limited form. The mission considers this a step in the right direction and recommends a total abolition of the remaining import embargoes, even if accompanied by an upward revision of the relevant tariff rates.

With respect to the embargoes on exports the mission does not believe

- 656 that the supply of the materials covered by this measure would be seriously
 • 657 endangered if their export were permitted, particularly if the industrialists
 431 were given free access to the international raw material markets.

At the time of the termination of the economic union, Syria's tariff structure was rather simple, with little diversification in rates. For most industrial products, excluding primary materials or semi-finished goods essential for local industry, the normal tariff rates (specific and ad valorem) approximated 25%. Since then, even in those instances in which the tariff was raised, the ad valorem duties, at least those expressed in a percentage of free rate prices, are still under 35%, exclusive of the consumption tax on imported goods. Only a few specific duties exceed that level.

Elsewhere in this report the mission recommends that for fiscal reasons the valuation of imported goods at the fictitious official rate prices be replaced by a tariff based on actual free rate prices, and that at the same time the entire schedule of tariff duties, both ad valorem and specific, be subjected to a careful re-examination governed by both revenue and economic considerations. This would undoubtedly result in a more diversified tariff. Certain rates, for instance on some semi-finished and finished goods, would have to be lowered; others could remain as they are. To the extent that duties must remain protective in nature (for infant industries or those subjected to foreign dumping practices), they should not be so high as to safeguard local industries from all foreign competition and thereby weaken the incentive to lowering costs. Moreover, due attention should be given not only to the interests of the producers of the "protected goods", including the industrial workers, but also to the interests of the local consumer, be it a further processing industry or the consuming public. The mission has the definite impression that with respect to the protectionist measures the voice of the industries demanding them has in many cases prevailed over the voice of the other interested groups. It is therefore recommended that in revising the tariff the government should take a broader view than it has done hitherto and pay more attention to keeping the cost of industrial necessities down for the large majority of the population.

We have mentioned that the decisions of the Minister of National Economy to impose a licensing requirement and embargoes on imports and exports now require the approval of the Council of Ministers. If the government follows the mission's recommendations, the administration of

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industrial protection through measures affecting foreign trade would be largely the responsibility of the Minister of Finance. We therefore suggest some procedure to assure that the Minister of National Economy also has some responsibility in this connection insofar as the interests under his jurisdiction are involved. It would also seem desirable that the Council of Ministers continue to exercise its ultimate control over measures of this character so that possible conflicting considerations may be resolved in terms of the public interest in its broadest sense. 656
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Export promotion. The priority given by the Syrian government to attaining national self-sufficiency with regard to industrial products which can be locally manufactured has been combined with a growing effort to open up additional markets for Syrian industry, particularly in the other Near Eastern countries. Syria's execution of several bilateral trade agreements and participation in the inter-Arab economic agreement aiming at liberalizing mutual trade exchange are undoubtedly steps in the right direction. The possibilities for further industrial export promotion, however, are not being fully exploited. 654
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First, the mission recommends that Syrian export industries be given every possible assistance in the procurement of foreign raw and auxiliary materials without fiscal charges, specifically that they be given a full rebate of such charges commensurate with actual exports, and that the system of rebates be so administered that the rebate can be quickly and easily obtained.

Secondly, it is recommended that the policy of negotiating bilateral trade agreements with Syria's main commercial partners be systematically pursued. The considerable increase in recent years in exports of silk and artificial silk cloth, knitwear and other articles of clothing and scap, particularly to the markets of Jordan and Iraq, indicates that there are industrial export possibilities worth while consolidating and expanding.

Thirdly, it is suggested that Syria which, so far as is known, lacks natural oil deposits, has an even greater interest than its oil-producing neighbors in the creation, on a multilateral basis, of a market among the countries of the Arab League; the amount of purchasing power generated by these other countries would contribute far more to the joint total than would Syria's contribution. It therefore seems to be particularly in Syria's interest to promote further inter-Arab economic integration. If this could be achieved, conditions would also become more favorable for the re-establishment of the economic union with Lebanon.

واردات الحكومة ١٩٥٠/١٩٥١ - ١٩٥١/١٩٥٢ : تقديرات الوزارة
(بالوف الزرات السورية)

GOVERNMENT REVENUE, 1950/51 - 1954
(Budget Estimates)
(L.S. '000)

العملة

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Table No. 2

جدول رقم ٢

Item of Revenue	١٩٥٠/١٩٥١ (1)	١٩٥١/١٩٥٢ (2)	١٩٥٢ 1953	١٩٥٤ 1954	
Total revenue	215,720	265,000	207,992	208,000	مجموع الواردات
Direct taxation and duties	27,312	46,215	37,675	33,600	ضرائب المباشرة والرسوم لمالية لها
Indirect taxation and duties	126,778	151,336	114,554	119,591	الرسوم والنداء غير المباشرة
Registration fees	16,800	22,124	18,610	21,000	رسوم التسجيلية
Income from Government property	6,360	6,490	5,730	5,800	حاصلات املاك الدولة
Income from investments in industries	713	788	375	800	حاصلات الاستثمار الصناعي
Miscellaneous revenue and revenue from public services	31,902	31,048	17,089	20,151	ارادات مختلفة وواردات المصالح العامة
Receipt in attention to expenditure	975	950	657	657	ارادات تخففة لتنفقات
Extra-ordinary revenue	4,880	6,047	13,103	6,005	ارادات استثنائية

Source : Ministry of Finance.

المصدر : وزارة المالية

- ١ - للمدة الواقعة بين ١ كانون ثاني ١٩٥٠ لغاية حزيران ١٩٥١
٢ - للمدة الواقعة بين ١ تموز ١٩٥١ لغاية كانون اول ١٩٥٢

اسم وارادات الحكومة من مختلف الضرائب والرسوم ١٩٥٤ - ١٩٥٢/١٩٥٠٠٠
 حسب تقديرات الموازنة (بالليرة السورية)

PRINCIPAL GOVERNMENT REVENUE FROM TAXES AND FEES, 1950/51 - 1954

Budget Estimates

(L.S. '000)

Table No. 3

جدول رقم ٣

TAXES AND FEES	١٩٥١/١٩٥٠ 1950/51 (1)	١٩٥٢/١٩٥١ 1951/52 (2)	١٩٥٢ 1953	١٩٥٤ 1954	الضرائب والرسوم
Total	170,280	210,677	160,560	164,924	المجموع
Tax on income from house property	8,000	8,000	4,500	5,000	ضريبة ربح العقارات
Tax on land property	180	800	400	500	ضريبة الميراث والأراضي
Tax on trades and industries	6,500	11,500	15,000	9,750	ضريبة المهن والحرف الصناعية
Tax on salaries and wages	2,450	4,500	3,500	3,400	والبحرية وغير التجارية
Tax on capital funds in circulation	100	150	200	200	ضريبة الرواتب والأجور
"Tamatu" tax	3,000	4,000	3,400	2,975	ضريبة دخل رؤوس الأموال المتداولة
Animal tax	6,000	13,400	8,000	8,000	ضريبة التمتع
Tithe	75	75	50	50	ضريبة الموائف
Passage and personal tax	195	305	100	50	ضريبة الأمتلار
Mineral tax	87	37	25	25	ضريبة بدل الطريق والرسم الشخصي
Security tax	1,912	3,000	1,800	2,000	ضريبة المعادن
Registration of property tax	75	125	200	200	ضريبة المراسم
Fees on lands irrigated by the Government network	113	303	400	500	ضريبة التسجيل العقاري
Fees on transfer for movable property	300	300	100	100	رسوم على الأراضي المستغلة بمنتجات الري الحكومية
Duties on fuel	13,750	20,000	12,500	15,000	رسوم النقل على الأموال المنقولة
Duties on alcoholic drinks	1,300	1,300	1,300	1,300	ضريبة المواد المشتملة
Duties on sugar	15,000	15,000	7,750	8,000	ضريبة السكرات
Duties on salt	—	—	2,750	2,900	ضريبة حاصلات حصر السكر

1 — Period 1st January, 1950 — 30th June 1951.

2 — Period 1st July, 1951 — 31st December, 1952.

(1) السنة الواقعة بين ١ كانون الثاني ١٩٥٠ لغاية حزيران ١٩٥١

(2) السنة الواقعة بين ١ تموز ١٩٥١ لغاية كانون ايلول ١٩٥٢

أهم واردات الحكومة من مختلف الضرائب والرسوم ١٩٥٤ - ١٩٥١/١٩٥٠
 حسب تقديرات الموازنة (بالوف البرت السورية)
 PRINCIPAL GOVERNMENT REVENUE FROM TAXES AND FEES, 1950/51 - 1954
 Budget Estimates
 (L.S. '000)

Table No. 3 (concd.)

TAXES AND FEES	1951/1950 (1)	1952/1951 (2)	1953	1954	الضرائب والرسوم (تمة)
Duties on tobacco and tobacco	22,500	22,000	16,500	19,000	واردات حبر التبغ والتبغ
Duties on cement consumption	1,300	3,600	2,400	3,000	رسم الاستهلاك على الاسمنت
Duties on entertainments	600	750	100	410	رسم الامم
Duties on game shooting, fishing and boat sailing	38	38	45	40	رسم الصيد البري والبحري والصيد
Tax on agricultural production	21,390	32,760	23,000	22,000	ضريبة الانتاج الزراعي
Revenue from the «Common Interests» (Customs)	45,500	56,000	37,050	38,400	واردات المصالح المشتركة (الجمارك)
Judicial fees	2,025	2,175	1,710	2,000	الرسوم القضائية
Fees on the Notary Public	375	525	400	400	رسوم كتاب العدل
Fees on sale, transfer and registration of property	4,050	5,000	4,000	4,100	رسوم الفراغ والانتقال والتسجيل
Stamp duties	6,375	8,440	7,000	7,500	الضرائب
Receipts from motor vehicle traffic control	1,800	2,750	2,750	2,750	رسوم الطوائف
Army stamp duty on electricity consumption	975	1,175	1,000	1,200	حاصلات مراقبة رسم السيارات
Revenue from General Security Offices	375	375	400	560	رسم الجيش على كتوف مقطوعة
Consular fees	450	1,000	850	1,500	القوة الكهربائية
Receipts from foreign trade permits	375	675	500	780	حاصلات الأمن العام
					حاصلات الاتصالات
					حاصلات تصاريح الجارة الخارجية

Source: Ministry of Finance

1 — Period 1st January, 1950 — 30th June, 1951
 2 — Period 1st July, 1951 — 31st December, 1952.

المصدر: وزارة المالية
 (١) المدة الواقعة بين ١ كانون الثاني ١٩٥٠ لغاية حزيران ١٩٥١
 (٢) المدة الواقعة بين ١ تموز ١٩٥١ لغاية كانون أول ١٩٥٢

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ECONOMIC SURVEY

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refinery is running on imported crude oil at about a quarter of its capacity. There exists an IPC refinery at Tripoli which treats over half a million tons of crude a year (10,000 barrels a day) for the needs of Syria and Lebanon which it cannot fully supply; accordingly, its extension has been under discussion. Construction has begun on a refinery for 7,000 barrels a day at Sidon for Mediterranean Refining Company (California Texas Corporation), but while the Syrian market is still too small to justify the erection of a refinery, the Syrian Government nevertheless wishes to have a refinery established in the country to meet its own needs, and negotiations to this end with IPC and with the World Bank have recently taken place.¹

Under the Barcelona Convention of 1921 dues are not leviable on transit trade, but the two countries draw, under their agreements with the pipeline companies, a sizable revenue from petroleum apart from the indirect benefits caused by employment by the oil companies. At the time of writing the agreements between the two Governments and the two oil companies are under review but no precise details are available, though the two Governments began by demanding that they should receive jointly a half share of the saving which the companies made by using the pipelines instead of having to transport their oil to the Mediterranean by tanker. Even if this principle were accepted, the difficulty would remain of establishing a satisfactory formula for calculating the saving. The agreement with Tapline is believed to provide Lebanon with about £L4½ million a year. The oil companies bring foreign exchange into Syria and the Lebanon and the currency is surrendered to the Governments at the official rate but can thereafter be resold at the rate applying to the free market which may bring to the Governments a profit of a third. The problem is that Syria and Lebanon are, in fact, not oil-producing states and, although their needs and desires for foreign money may be as great as Iraq's, it is difficult to see how they can expect to obtain from petroleum the same revenue as do the states where it is produced.

Communications

In general, roads provide a cheaper and quicker means of transport than the railways which are mostly running at a loss. The railway lines are:

The Hejaz Railway. A narrow (3 ft 5 in.) gauge track runs from the centre of Damascus to Deraa (88 miles) and thence

¹ See *Petroleum Press Service*, February 1953, p. 53.

ECONOMIC SURVEY

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investment in cotton growing, prices began to rise once more. At the end of 1951 rising import prices, coupled with the poor grain crop, were reflected in local retail prices, and prices continued to rise until mid-1952, when governmental action and steadier import prices had a salutary effect. Thus, generally speaking, the retail price of household goods has risen five or six times since before the war, and the currency in circulation has also risen despite the fact that the official credit policy has been restrictive; although the note issue is now only £S46 million higher than in 1946 (at 31 December 1951 it was £S248 million), bank deposits have increased from £S96.2 million at the end of 1949 to £S198.3 million at the end of 1951. At that date the currency was covered, as to gold 9.9 per cent, foreign exchange 6 per cent, commercial bonds 1.4 per cent, treasury bills 33.5 per cent, and state loans or guarantees 48.9 per cent. 435 439

Direct taxation on income and the land accounts for only about a quarter of the Syrian budget;¹ this is less than before the war, for the proportionate amount from the land has fallen from 30 per cent to about 14 per cent in 1950; the estimate for 1952 was 18 per cent. Receipts from customs duties have increased considerably and these, with other indirect taxes, have helped to make the burden less 'fairly' distributed. Indirect taxes are levied on sugar, petroleum, and other essential commodities. Budgetary expenditure since before the war has increased seventeenfold, and since 1949 the total annual expenditure has increased by more than a quarter; but whereas expenditure on health, education, and public works has increased only slightly, that on defence has trebled and accounts for over a third of total expenditure. Agriculture, with only 2 per cent of the budget, is insufficiently provided for and it is hoped that its share will be increased. 651 652

Banking is largely but not exclusively in the hands of foreign banks; La Banque de Syrie et du Liban (French) has the concession for the note issue, but there is talk of starting a Syrian National Bank; among other commercial banks are La Banque Nationale pour le Commerce et l'Industrie (French) and the British Bank of the Middle East. The foreign-exchange market has always been less influential than that of Beirut, but in this respect Aleppo is growing in importance. There is a recognized free market for exchange² in which merchants and Government alike deal. The official rate of £S6.19 = £1, used mainly for Government transactions, was abolished in June 1953 for all purposes except Government transactions with petroleum com- 453 457

¹ See table 2, p. 502 below.² See table 3, p. 503 below.

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COTTON IN SYRIA

COTTON TEXTILES

Syria has nine small cotton textile mills centered around Aleppo and Damascus, with a total of 55,000 spindles and 2,000 looms and a number of knitting mills and garment factories. A large home industry, which not only weaves but also spins cotton yarn, has, according to trade representatives, a capacity almost as great as that of the commercial mills. 288

Until a few years ago the industry of Syria was complementary to that of Lebanon. Syria bought yarns from Lebanon and sold cloth there. The two countries together were able to produce about two-thirds of their total needs.³⁰ According to nationalistic pressure, Syria dissolved the customs union in 1950 and set about not only to install more spindles to balance the weaving capacity, but actually to become self-sufficient in all cotton textiles. A number of mills have bought new equipment for rehabilitation and integration. (439)

Outstanding in this field is the new mill built at Damascus by a group of industrialists known as the "big five." The mill is small in size—only 10,000 spindles and 350 fully automatic looms—but it is a showplace, modern in every detail. The management is especially proud of the modern clinic which provides the workers with free medical attention—a new idea in this part of the world.

This mill has a well-trained engineering and administrative staff and good machinery. To increase efficiency, the management hopes to abandon the range of goods now made and concentrate on the production of only two or three constructions. The level of efficiency is high enough, based on the wage scale of roughly \$1.25 per day, to permit the mill to compete on the world market. Approximately 20 per cent of the cloth production is exported.

The other industries are less efficient and are not in a position to compete on the export market.

COTTON CONSUMPTION

In Syria production of yarns was estimated by the government at 5,500 tons in 1951, double what it had been four years earlier and seven times the output ten years ago. Industry and government figures vary considerably, especially on output of the home industry, but they agree on the same sharp rise in production. 288

Cotton consumption, computed on the basis of yarn production estimates, is placed at approximately 33,000 bales and is in line with the sharp increase in yarn production.

PROTECTION

As in other Middle East countries, the cotton textile industry receives substantial tariff protection from imports. Syria is a free-money market, and foreign exchange can be bought for any purpose on any street corner. As a result, prices are reported to be going down, as they did in Lebanon when foreign exchange was freed several years ago. 288 651 ● 457

Duties on cotton textiles were changed in 1949 from a specific rate base to an ad valorem base. The duties on most yarns in which the local industry is deficient average about 20 per cent ad valorem; on cotton textiles, about 651

³⁰ Report of the United States-Syria Agricultural Mission, op. cit., p. 3.

COTTON IN THE MIDDLE EAST

- 651 30 per cent; and on garments, from 40 to 50 per cent. Syria, along with many Middle Eastern countries, has retained a war-time regulation assessing double duty on goods from Japan, a former enemy.

AGRICULTURE

311 Accurate figures on the present land use or possible uses are lacking.
244 Government estimates on the area under cultivation and acreage are considered unreliable by the United States Agricultural Attache, and he suggests using them only as general indications of trends.

These rough calculations indicate that about 45 per cent of the country—approximately 20 million acres—is suitable for agricultural purposes, including grasslands. The rest is waste land. About half of the 20 million acres are thought to be suitable for cultivation, out of which between 4 and 5 million acres are estimated to be in crops and orchards at the present time.

At least three-fourths of the crop land appears to be devoted to cereals, primarily wheat and barley. Cotton has been expanded in recent years to about 10 per cent of the planted land. Dry legumes, vegetables and other minor food crops, as well as several less important industrial crops such as tobacco, hemp, and silk cocoons, are also produced.

Orchards and vineyards are significant in Syrian agriculture; and, although they have not been fully developed, occupy possibly 10 per cent of the cultivated land. Olives, citrus, walnuts, and pistachios are commonly grown.

Because of the lack of moisture, inadequate rotation, and insufficient use of fertilizer, a large part of the cultivated land is fallowed each year. A



—Photo Courtesy of Near East Foundation

Near East Foundation officials inspect one of their experimental cotton fields near Damascus which produced over a bale and a half to the acre.

"Anyone who intentionally dirties any drinking water source is to be imprisoned for from one to three years and shall pay a fine of from 25 to 300 Syrian pounds" (Article 735). 67/ 312 681

New Taxation on Irrigated Lands

A new legislative decree, No. 34 dated 30 December 1951, amends Articles 2, 3, 4, 6 and 8 of law No. 467 dated 21 February 1949 which imposed an annual tax on land irrigated by state irrigation systems. The new decree reads as follows: 312 651

"This tax is applied per hectare in the following manner:

Area of Irrigated Land	Khabour Mésrib and Senn Irrigation System	Homs and Hama Irrigation System	Matkh Irrigation System
	L.S.	L.S.	L.S.
Up to 5 hectares	20	15	5
From 5 to 25 hectares	25	20	7.5
From 25 to 50 hectares	40	30	10
Over 50 hectares	50	40	15

"Such tax shall be reduced by half after a lapse of ten years from its first year of application.

"It should be calculated on the whole area held by the taxpayer, whether individually or in partnership with others, with reference to the land irrigated by one and the same irrigation system. The tax on a fraction of a hectare shall be proportionate to the tax on a whole hectare.

"The tax shall take effect on the first day of the year following the year in which the water is brought to the land subject to the tax, even though such water has not been used.

"The term 'Engineer-in-Chief of the region' in Article 8 of Law No. 467 shall be replaced by 'Engineer-in-chief of the hydraulics service of the region' (Article 2).

"The following paragraph is added to Article 6 of Law 467:

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"In regions where there has been neither delimitations nor survey, the areas to be taxed shall be determined on the basis of the taxpayers' declarations and the investigations by such services. Investigation expenses shall be fixed, where necessary, by decision of the Ministry of Finance." (Article 3).

"The provisions of this legislative decree shall come into force on 1 January 1952 and shall have effect as of that date with respect to land exempted by previous legislation (Article 4).

"This legislative decree shall be published and communicated as and where necessary" (Article 5).

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The basic Tunisian legislation actually in force on water is the following:

1. The decrees of 24 September 1885 defining public domain.
2. The decrees of 24 May 1920 setting up a special water service with an agricultural and industrial hydraulic fund and a water committee.
3. The decree of 5 August 1933 definitely codifying the conservation and utilization of waters of the public domain and its succeeding amendments (the decrees of 11 May 1935 and 26 November 1936).
4. Other provisions concerning the fees due for the utilization of public domain waters (the orders of 5 June 1935 and 21 February 1938) and concerning the organization of hydraulic associations (the decrees of 30 July 1936 and 17 March 1939).

According to the decrees of 24 September 1885, the public domain consists of:

1. watercourses of all types and the lands included in their embankments;
2. springs of all kinds;

- 674 conducts an experimental farm, and co-operates with the government in a comprehensive educational program.
- 489 Syria produces a variety of items for export, the principal products being cereals, textiles, vegetables, cotton and wool and hides. It is relatively poor in mineral resources, although rich deposits of asphalt exist in the Nusairiyeh range and salt basins in Aleppo, Hama and Damascus provinces.
- 135 471 Explorations for oil have been made in the northeast under a concession acquired in 1940 by the Syrian Petroleum Company, an affiliate of the Iraq Petroleum group.
- 315 651 After several years of unsuccessful borings, the concession was relinquished, but the country derives some income from pipelines which traverse it, leading from the oil fields in Iraq and Saudi Arabia to Syrian and Lebanese ports. Industrial development is slowly emerging from the handicraft stage, and numerous modern plants for the processing of local materials have been established, primarily in Damascus and Aleppo. They include the manufacture of textiles, soaps and oils, cigarettes, various food products, shoes, cement and other consumer goods. The promotion of industry is handicapped, however, by the shortage of raw materials, labor and cheap sources of power.
- 441 The cities and the towns of western Syria are linked with each other and with the adjoining territories by a system of motor roads. Communications in the interior are poor, and consist in many areas of tracks across the desert. There are no navigable rivers. Latakia, the chief port, is small, and steamer traffic with the Mediterranean countries is at present conducted largely through Beirut and Tripoli, in Lebanon. The construction of modern port facilities at Latakia is scheduled, however, for 1953.
- 315 505 Baniyas has been developed as the terminal of the new pipeline from the Kirkuk oil fields of the Iraq Petroleum Company to the Mediterranean. It was completed in 1952. Aleppo is connected by railways with both Beirut and Tripoli, and is an important junction on the trunk line from Istan-

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ISRAEL, JORDAN, SYRIA, LEBANON

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Premier Fawzi Selo stated at the end of 1952 that the annual royalties from Tapline totaled about \$490,000 and that the Syrian Government found that sum inadequate as compared with the advantages the Company enjoyed in Syria. The Government had therefore asked the Company for an increase, and after negotiations a new agreement was signed in May 1952 which raised the royalty to about \$1 million, and which provided that the parent companies of Tapline were to supply Syria with increased amounts of crude oil to meet part of her internal need, at the most favorable prices prevailing in the eastern Mediterranean area.³⁰

Soon the Syrian Government felt that even the increased royalties and crude supplies were not sufficient and it demanded from I.P.C. and Tapline one-half of all savings from the transit of oil through Syria, based on what the cost would be if the oil had to be moved by tanker. It also demanded that the crude oil be supplied free to the Government.³¹

EXPLORATION

Syria having been included in the Red Line Agreement, I.P.C. obtained, early in 1934, a four-year exploration permit in the Shamiyah desert; this was later extended to other areas. In 1936 the subsidiary Petroleum Concessions (Syria and Lebanon) Ltd. was organized. Two years later the Syrian Government signed an agreement with this Company granting it a 75-year concession covering all the Syrian territory (except the Alexandretta district) north of Damascus. It provided for an immediate payment of £50,000, a rental rising from £15,000 to £80,000 in ten years, and a lump sum of £100,000 when oil began to be exported. Royalty was to be 4 shillings per ton. The Company was to build a refinery to supply Syria's internal petroleum needs. If oil was not discovered within ten years, or no commercial export was under way within fifteen years, the concession was to be cancelled. The agreement was not ratified until 1940, but in the meantime the Company carried on exploration and drilling. The outbreak of World War II

³⁰ *Middle Eastern Affairs*, IV, 20, Jan., 1953.

³¹ Longrigg, *Oil in the Middle East*, 244; *Le Commerce du Levant-Beyrouth Express*, Mar. 5, 1955. It was calculated by the Syrian press that the oil companies saved through the pipelines over \$220 million, while the payments to Syria were no more than £5 6 million.

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THE MIDDLE EAST, OIL AND THE GREAT POWERS

471/ interfered with operations, which were resumed in 1947. The Company gave up its concession in August, 1951.²²

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In 1954 it was reported in Damascus that the annual internal consumption of petroleum was about 350,000 tons and that the Government was negotiating with Tapline and I.P.C. to build two refineries near Damascus, the cost of which was to be deducted from the Government's revenue from the two companies.

So far Syria has failed to discover oil in her territory, but the Tapline and I.P.C. pipelines have become important sources of income to the Government and the cause of constant friction between it and the oil companies. From 1947 to 1952 the increase in the income from pipelines was considerable, but the local agitation for higher royalties has been continuous and, in the spirit of the prevailing practice in the area, a demand for a 50 per cent profit-sharing arrangement is constantly being echoed.

Lebanon

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471/ Lebanon signed an agreement with I.P.C. in 1931 under the same conditions as the other countries. The first pipeline ran through her territory for only seventeen miles. The northern branch of the line terminated at Tripoli where a farm of fifteen 93,000-barrel tanks was built. The loading fee at Tripoli was 2 pennies per ton.

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In 1947 Lebanon signed the agreement with Tapline mentioned above, and that same year I.P.C. agreed to pay Lebanon transit fees amounting to £45,000 annually. A new agreement with I.P.C. was signed in 1952, raising the transit fees to about £450,000 annually. A new agreement was also signed with Tapline in 1952; it provided for a basic increase in transit fees, for \$3 per ton up to 200,000 tons for petroleum products consumed in the country; an increase in the loading fee at Sidon; and annual contributions of \$21,000 for the maintenance of the public highways used by the Company's vehicles and \$17,000 to the municipalities of Beirut and Sidon in consideration of services.²³

²² A. H. Hourani, *Syria and Lebanon* (London, 1946), 155; Longrigg, *Oil in the Middle East*, 91-93.

²³ United Nations Department of Economic Affairs, *Review of Economic Conditions in the Middle East 1951-52*, 59, henceforth cited U. N. Review or

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The banking system was developed, but this improvement was partly offset by the shocks caused by successive devaluations of the franc, to which the Syrian pound was linked on an exchange standard. Slight reforms were introduced in the fiscal system, and steps were taken to protect industry. Until 1924, the Ottoman tariff of 11 per cent on almost all goods had remained in force. In 1924, a distinction was made between members of the League of Nations and the United States, goods from which were subjected to the "normal" tariff of 15 per cent, and other countries, 1/ which paid the "maximum" of 30 per cent; industrial machinery was exempted from customs duties. In 1926, the normal rate was raised to 25 per cent and the maximum to 50 per cent. In 1928, duties on raw materials and fuels were reduced. In the nineteen thirties, the general level of the tariff was lowered, but protection to Syrian industry was increased. As a result, several modern factories were established, and there was also some modernization of the handicrafts, by the installation of improved tools and power driven machinery. 2/

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During the Second World War the large-scale expenditure of Allied troops raised incomes and prices, 3/ thus stimulating agricultural and industrial production, and the reduction of imports also aided local production. Owing to some mechanization, and to the fact that cultivation of marginal land became profitable, the area sown to major field crops increased by about 40 per cent between 1936 and 1945. This extension of acreage was, in some years, offset by a decline in yields, but the grain crop at the end of the war was distinctly greater than before the war. Industry expanded considerably, and communications were improved. The forced saving, due to inflation and the shift to profits, took the form of franc and sterling balances held by Syrian individuals and institutions.

- 1/ Owing to special arrangements, trade between Syria, Lebanon, Palestine and Transjordan was exempt from duties on either side.
- 2/ Both the decline in handicrafts and the rise of modern industry are reflected in the following figures, covering Syria and Lebanon, presented by the Mandatory Government to the League of Nations in 1937: in 1913, there were 310,000 handicraft workers; by 1937, the number had declined to 171,000, most of whom were in Syria; on the other hand, there were 53,000 workers in "modern industries", of whom a little over 40 per cent were in Syria and the rest in Lebanon.
- 3/ From 1940 to 1944 inclusive, Allied expenditure in Lebanon and Syria totalled 276 million (sterling). In 1939 to 1945, inclusive, Lebanon and Syria had a surplus of 607 million Lebanese-Syrian pounds on current account. The index number of retail prices of twenty-two essential commodities in Damascus rose from 100 in 1938 to 831 in 1945.

£S 3.50 and £S 3.85 in 1951, and between £S 3.55 and £S 3.09 in 1952, in 1953 457 it fluctuated between £S 3.57 and £S 3.72 and during the last seven months of the year remained stable at £S 3.50. But while the Office has dampened seasonal movements it does not seem to have attempted to correct or mitigate longer-term trends. In addition, in the second half of 1953, two measures were taken to give the exchange market greater flexibility. In July the Exchange Office began to quote daily forward buying rates for United States dollars, pounds sterling, French francs and Belgian francs; these rates were limited to foreign exchange derived from exports. And in August non-resident accounts opened with authorized banks could be overdrawn within the limits and during the time required for the settlement of normal commercial transactions. 1/ Transactions carried out by the Exchange Office rose from £S 502.5 million in 1952 to £S 676.2 million in 1953. 2/ A breakdown of the Office's operations shows that it drew on the sterling accruing to the Government at the official rate - mainly from petroleum companies operating in Syria, which in 1953 supplied £ 4.6 million (sterling) - and on its French franc balances, and sold sterling and francs to the market, purchasing with the proceeds gold, dollars and other currencies for use as note issue cover. 3/

Public finance

Both expenditure and revenue increased very rapidly during the war years, 652 expenditure from £S 10.9 million in 1939 to £S 99.1 million in 1945, and 651 revenue from £S 11.4 million to £S 118.2 million, the increase was therefore somewhat greater than the rise in prices. A surplus was registered in every one of the war years, and in 1945 the Government Reserve Fund stood at £S 49 million; in 1946 there was a further surplus of £S 8 million. The increase in expenditure in subsequent years, due mainly to the war in Palestine and to increased expenditure on defence, was not matched by revenue, and every budget except that of 1952 showed a deficit; from 1947 to 1949, £S 32 million were withdrawn from the Reserve Fund. The draft estimates for 1953 and 1954 also show deficits.

1/ International Monetary Fund, Fifth Annual Report on Exchange Restrictions.

2/ In 1952, £S 29.1 million of purchases and £S 13.4 million of sales and in 1953 £S 29.5 million and £S 21.8 million, respectively, were effected at the official rate, the remainder at free rates.

3/ Net sales to the market in 1952 totalled £ 4.3 million (sterling) and 62 million French francs; net purchases of United States dollars were 9.8 million, of Swiss francs 1.1 million, and of Belgian francs 23.7 million. Corresponding figures for 1953 were 698 million French francs, and £ 12.8 million; purchases of sterling equalled sales (Ministry of Finance, Exchange Office, Annual Report, 1952 and 1953 (in Arabic) Damascus).

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651 The Government's debt to the Banque de Syrie et du Liban 1/ rose from £S 158.5 million at the end of 1948 to £S 241.7 million at the end of 1951 and £S 312.4 million at the end of 1953; there had been no debt prior to 1948. The only external debt was the \$6 million loan from Saudi Arabia mentioned above.

Important tax reforms were carried out during the war years. In 1942 an income tax was levied on incomes earned in industry, commerce and the professions, on wages and salaries and on dividends, interest and other earnings on capital; rates were raised in subsequent years. 2/ In 1944 a tax of 7 per cent was levied on marketed agricultural produce; this replaced the previously levied tithe and land tax. Buildings and land lying within towns or villages continued to be taxed on their capital value. In 1952 an inheritance tax was imposed, with rates ranging from 1.5 to 40 per cent.

The increase in revenue in recent years has come mainly from increased yield of income taxes, registration fees, excise duties on sugar and petroleum and the profits of the tobacco monopoly (see table 54). On the expenditure side, the most striking change in recent years has been the increase in defence expenditure, which rose from 16.5 per cent of the total in 1945 to 43.7 in 1951/52, declining to 36.3 in the 1954 estimates. Other important items are education, which rose from 8.8 per cent to 17.6 and 17.8, respectively, and health, from 2.9 per cent to 2.8 and 4.2. Expenditure on public works increased little, and its relative importance declined from 12.4 per cent to 6.3 and 8.3. However, some of the most important projects, such as the Ghab drainage, Latakia harbour, Aleppo water project and others, are not included in the budget, being financed by loans or other extra-budgetary sources.

1/ This includes such items as the difference on the French franc cover of the note issue (£S 65.8 million in 1952) and the debts of the Cereals Office (£S 46.8 million), the Exchange Office (£S 26 million), the Agricultural Bank, the railways, electricity administration and other government administrations (£S 59.4 million) and loans to industrial companies guaranteed by the Government (£S 13.4 million), as well as the direct debt of the Government of £S 96.9 million, and other minor items.

2/ In 1952 rates ranged from 6 per cent on incomes between £S 3,000 and 10,000 to 18 per cent on those between £S 30,000 and 50,000 and 36 per cent on those above £S 750,000.

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Table 34. Syria: Principal Items in Government Budgets,
1950 and 1951 to 1954

(Millions of Syrian pounds)

Item	1950	1951	1952	1953 ^{a/}	1954 ^{b/}	1955 ^{c/}	1956 ^{d/}
Revenue:							
Direct taxes on income and wealth ^{a/}	1.2	9.4	12.2	19.3	27.1	27.8	33.8
Taxes on property transfers	0.4	8.9	9.3	16.7	28.5	18.6	21.0
Taxes on land, animals and agricultural produce	3.5	18.9	18.9	26.8	49.7	32.0	31.0
Customs duties	0.1	36.9	41.5	49.6	62.3	37.7	37.8
Other indirect taxes	3.6	34.3	39.1	96.9	60.9	34.8	60.7
Other receipts	2.6	9.5	15.2	40.3	41.4	24.1	27.6
Total ^{e/}	11.4	116.1	136.1	209.7	270.1	194.9	202.0
Expenditure:							
Education	1.7	20.5	22.8	36.3	47.2	36.8	37.1
Health	0.3	3.4	3.9	5.3	7.5	9.4	8.8
Defense	-	44.8	49.3	102.5	104.6	66.0	73.4
Public works	2.0	16.9	16.4	16.9	16.8	17.5	17.2
Other expenditures	6.8	50.6	58.7	73.8	92.6	70.3	69.3
Total	10.9	136.3	141.1	234.8	267.7	208.0	208.0
Balance	0.6	-20.2	-5.0	-25.1	2.4	-13.0	-6.0

Source: United Nations, Bureau of Economic Affairs, Fiscal and Financial Branch.

a/ January 1950 to June 1951.

b/ Jul. 1951 to December 1952.

c/ Estimates.

d/ Taxes on income and wealth consist of income tax on income from real estate, industrial, commercial and other concerns, income on salaries, etc., and also taxes on capital transfers and other receipts.

e/ Total receipts, excluding transfer from reserve funds.